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The world's biggest companies

The FT500, the annual ranking of the top 500 companies in the world, reflects a year of sharply fluctuating corporate fortunes.

In tomorrow's FT

Schröder to delay end of nuclear power

Decision strains Red/Green coalition

By Frederick Stüdemann in Bonn

Gerhard Schröder, Germany's chancellor, yesterday bowed to international and domestic business pressure and backtracked on key elements of his government's plans to phase out nuclear power.

His decision should ease tensions with Britain and France over the reprocessing of German nuclear waste, but risks provoking a rift with his Green party coalition partners who are committed to scrapping nuclear power.

After a first round of "consensus talks" between government and industry, Mr Schröder said the reprocessing of German nuclear waste by companies in France and Britain would continue until suitable alternatives had been found.

He also said the timetable for the shut-down of the country's 19 nuclear reactors would be decided on a case-by-case basis in negotiation with industry.

The concessions rescued, for now, Mr Schröder's ambitions for reaching a compromise over an "orderly" exit from nuclear power.

But Rezzo Schlauch, co-head of the Greens' parliamentary faction, described yesterday's result as "unsatisfactory", especially as his party had failed to enforce a clear deadline for an end to reprocessing.

Jürgen Trittin, the Green environment minister, sought to paint yesterday's decision as a partial success even though it overturns his original plan to end reprocessing as soon as possible.

"We are pleased the nuclear industry expressly recognised that politics must prevail and that they respect the voters' decision to end nuclear energy in this country," he said.

Germany's decision, on environmental grounds, to switch from storing high level nuclear waste in salt mines at Gorleben – now deemed unsafe – to building interim above-ground storage facilities at nuclear power stations is expected to take several years.

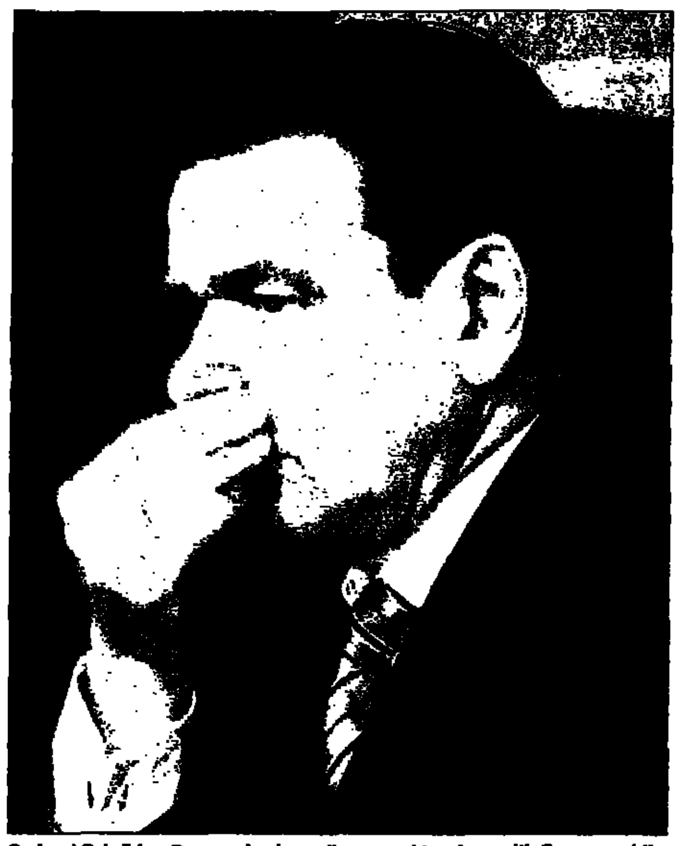
Manfred Timm, head of Germany's HEW utility and spokesman for the nuclear operators, said German industry fundamentally disagreed with the government's plans but that, as democrats, they respected the primacy of politics. He said the concession on reprocessing had been essential to avoid a "knock-out blow" to industry.

British Nuclear Fuels, which reprocesses German fuel at Sellafield in Cumbria, northern England, gave a cautious welcome to the German decision.

The German government and industry also agreed to set up a working party to study the creation of interim storage facilities for spent nuclear fuel rods close to reactors and to negotiate the operational life spans of reactors.

Industry representatives said it could take six years to establish storage facilities. Once they had been set up Mr Schröder said industry had agreed to "use all contractually envisaged possibilities" to end reprocessing.

Additional reporting by Andrew Taylor in London



Gerhard Schröder, Germany's chancellor, eased tensions with France and the UK by back-tracking over plans to phase out nuclear power. Picture: AP

EU contract workers may win greater protection

By Michael Smith in Brussels

Millions of fixed-term contract workers in the European Union could soon win legal protection against discrimination in areas such as working hours and company pensions.

Unice, the European employers' federation, and the European Trades Union Congress, have agreed an outline deal that would limit the use of successive contracts and "improve the quality of fixed-term work".

The deal must be approved by national unions and employers' organisations to take effect, but both Unice and the ETUC were hopeful yesterday that it would go through.

The EU has around 17m fixed-term workers out of a total workforce of 150m, some of whom are already protected against discrimination by national laws.

Trade unions complain that employers use short-term contracts to deprive workers of rights and benefits they would receive if they were on the permanent payroll.

The agreement would be only the third negotiated between employers and unions under "social protocol" provisions in the EU's 1991 Maastricht treaty. The others covered part-time work and parental leave.

The protocol encourages the "social partners" to reach agreements on work-related issues that they can then ask governments to adopt into law.

Employers and unions began talks on fixed-term contracts last year at the prompting of the European Commission, the EU's executive.

The fixed-term agreement is less prescriptive than some employers feared. It leaves much of the detailed implementation of laws to member states, thus respecting the growing trend in the EU towards subsidiarity, the principle that decision-making be devolved to the lowest appropriate level.

To prevent abuse arising from successive continuing fixed-term contracts, the agreement suggests member states adopt one or more of three options.

National laws, it suggests, should require "objective reasons" to be given justifying the renewal of contracts, stipulate maximum durations for contracts or limit the number of contract renewals.

US to reinstate trade provisions

By Deborah McGregor in Washington

The US is to reinstate its controversial "Super 301" trade provisions aimed at highlighting unfair trading practices, Charlene Barshefsky, the US trade representative announced yesterday.

Ms Barshefsky said renewal of Super 301 authority would enhance the US's ability to enforce trade agreements and "promote US interests around the world".

Under Super 301 the US publishes an annual list of trading partners engaged in unfair trading practices, putting targeted countries under pressure to alter their behaviour.

The decision comes at a sensitive moment, as the US seeks authorisation from the World Trade Organisation to retaliate against the European Union for alleged failure to comply with WTO rulings on its banana import arrangements.

Trade tensions are also growing between the US and Japan, and there are mounting complaints from the US steel industry about alleged dumping of steel imports in the domestic market.

Renewal of Super 301, which expired in 1997, adds to President Bill Clinton's trade arsenal, and will help demonstrate to Congress that his administration intends to stand up for US interests.

That may improve his chances of winning approval for fast-track trade negotiating authority.

Ms Barshefsky also announced the renewal of Title VII authority, which allows the US trade representative to address discriminatory government procurement practices.

"Given the state of the world economy, it is now more important than ever that we maintain these tools," Ms Barshefsky said.

In the past, Super 301 has been viewed with distaste by America's trading partners. It requires mandatory investigations of any nation that is declared a "priority" because of a "pattern" of trade-distorting practices and non-tariff trade barriers.

"Super 301 can be more effective as a threat than anything else," said former US trade official Bill Merkin, now a vice-president of Strategic Planning.

Korea, for example, has taken direct steps in the past to avoid being named on the annual Super 301 list. When named, it has negotiated to curtail its exports and bring its trade practices into line with US demands.

"Last year's successful conclusion of a market access agreement for motor vehicles with Korea demonstrated the effectiveness of Super 301," said Ms Barshefsky.

The US claims that in the past Super 301 has put pressure on Japan to dismantle trade barriers.

Italians urge EU to retreat, Page 6
Editorial Comment, Page 13

Boeing's aircraft deliveries rise 87%

By Christopher Parkes in Los Angeles

Boeing's 1998 rollercoaster ride ended on a high with a better-than-expected return to profit in the fourth quarter, as commercial aircraft deliveries rose 87 per cent over 1997's depressed levels.

Boosted by tax credits worth 3 cents a share, earnings of 48 cents, compared with a loss of 51 cents, were well ahead of the average Wall Street prediction of 42 cents a share.

Net income was $465m, compared with a deficit of $498m last time when results were hit by a charge of $876m to cover the costs of ending production of several McDonnell Douglas commercial airliners.

Investors, shaken by last year's sequence of upsets, including the company's predictions of reduced profits and production, were unmoved by the news. Boeing stock dipped slightly yesterday morning.

Analysts noted forecasts of commercial jet deliveries for next year had been reduced again from 490 to 480, compared with the 559 sold in 1998 and the 620 deliveries expected this year.

However, the effect on earnings was likely to be lessened by a small increase in expected sales of the 747 jumbo jetliner, its most profitable product.

The company said its stock repurchase programme, launched in the third quarter to prop up its weakened share price, had so far cost $1.3bn. About 3.5 per cent of the outstanding shares had been bought compared with a target of up to 15 per cent of the total.

Revenues in the commercial aircraft division rose 70 per cent in the quarter to $11.4bn, and accounted for two-thirds of the group total.

Operating profits from airliners were $218m, equivalent to 36 per cent of group-wide earnings at this level.

For the year, commercial aircraft made $63m in operating profits out of a total of $1.6bn on revenues of $56bn compared with $45.8bn in 1997.

The company said commercial division margins had come under pressure. In addition, Airbus Industrie, the European consortium, has stepped up its attack on Boeing's market share.

Boeing said the workforce had been reduced from its 1998 peak of 238,000 to 231,000 by the end of the fourth quarter. With more than 3,000 additional jobs due to go this month, the group expected to shed about 30,000 employees in 1999.

WORLD NEWS

Colombia appeals for help as quake toll rises above 500

The earthquake in Colombia's central coffee-growing region killed at least 500 people and injured nearly 2,000 others, officials said. The country's Red Cross appealed urgently for blood, basic medical supplies and clothing. **Picture, Page 14; Coffee market, Page 24**

Turkey seeks IMF approval
Turkey is trying to persuade the International Monetary Fund that it deserves praise and pledges of financial support for continuing its reforms. **Europe, Page 3**

Albright reassures Russians
US secretary of state Madeleine Albright tried to calm Russian fears that the US intended to abandon the Anti-Ballistic Missile treaty, the latest issue of contention in an uneasy US-Russian relationship. **Europe, Page 2**

Hussein back in US for checks
King Hussein returned to the US for medical checks, hours after attacking his brother, Prince Hassan, who was removed from the Jordanian succession last weekend. The King accused Prince Hassan of intrigue and meddling. **International, Page 14; Editorial comment, Page 13**

SA election chief quits
Johann Kriegler, the man in charge of organising South Africa's second post apartheid elections, resigned. His reasons were not made public. **International, Page 6**

Netanyahu appoints rival
Moshe Arens, Israeli prime minister Benjamin Netanyahu's challenger for leadership of the Likud party, agreed to be his defence minister. **International, Page 6**

Beijing in Silicon Valley push
Haidian experimental high-tech zone China's "Silicon Valley" hopes to attract foreign venture capital to help it create an important high-tech enclaves in Beijing. **Asia, Page 4**

Republicans scale back request
US Republican prosecutors reduced the number of witnesses they hope to call for President Bill Clinton's impeachment trial. Important votes are expected today on whether to dismiss the case and whether to call witnesses. **US, Page 7**

Germany seeks EU financing deal
Germany, current president of the European Union, has set a hectic timetable to try to achieve agreement on future EU financing by the end of March. **Europe, Page 2**

N Korea fixes polling date
North Korea named March 7 as the day for the first local elections since the death in 1994 of "Great Leader" Kim Il-sung. Elections to provincial assemblies were last held in November 1993.

BUSINESS NEWS

SAP shares rise on hopes of growth in Asian markets

Shares in SAP, the German software group, rose 5.7 per cent after it said it hoped it could grow in Asia this year. Group sales rose by 41 per cent to DM8.47bn (€4.33bn, $5bn) in 1998 and net profit rose 14 per cent to DM1.05bn. **European companies, Page 19**

Microsoft, the world's largest software group, made its second move into the European cable television industry this week when it agreed to buy a $300m stake in United Pan-European Communications. **Companies and Markets, Page 15**

The French government launched the partial privatisation of Air France, indicating that more than 17 per cent of the national carrier's capital would be floated in coming weeks. **European companies, Page 19**

Compaq Computer, the US personal computer manufacturer, plans to become the leader in internet services. Compaq said it would spin off AltaVista, the internet search service. **Companies and Markets, Page 15; Lex, Page 12; IBM in 2-for-1 stock split, Page 16**

Usinor, the French steel maker, is expected today to announce its biggest restructuring for more than a decade. **European companies, Page 19**

The US Food and Drug Administration has told Johnson & Johnson and Unilever they can launch new types of spread that reduce cholesterol in the bloodstream. **Companies and Markets, Page 15**

Raytheon, the US aerospace and engineering group, met market expectations with a 51 per cent rise in net income to $369m in the fourth quarter of 1998. **US companies, Page 16**

BMW, the German automotive group, is to suspend production of two Land Rover models at its Rover offshoot in the UK because of a drop in demand. **UK, Page 8**

Bakrie & Brothers, the listed arm of Indonesia's diversified Bakrie Group, has agreed in principle with creditors to swap up to $1.15bn in debt for equity. **Companies and Markets, Page 15**

Anglo American, the South African mining group, said it did not expect to obtain its London stock market listing until late May. **UK companies, Page 20**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets.
Page 21

WORLD MARKETS

STOCK MARKET INDICES		
New York		
Dow Jones Ind Av	9,226.23	(+22.91)
Nasdaq Composite	2,407.10	(+37.79)
Europe and Far East		
CAC40	4,071.28	(+20.48)
DAX	4,986.80	(+4.35)
FTSE 100	5,885.7	(+4.8)
FTSE Eurotop 300	1,187.54	(+1.05)
Nikkei	14,382.01	(+173.20)
US RATES		
Federal Funds	4⅞%	(5%)
3-mth Treas Bills: Yld	4.45%	(4.3%)
Long Bond	102$\frac{3}{16}$	(101$\frac{13}{32}$)
Yield	5.11%	(5.124%)
OTHER RATES		
UK: 3-mo Interbank	5$\frac{31}{32}$%	(5¾%)
UK: 10 yr Gilt	138.06	(137.8)
BBA Euribor	3$\frac{5}{32}$%	(3$\frac{5}{32}$%)
Germany: 10 yr Bund	108.58	(108.59)
Japan: 10 yr JGB	100.597	(100.201)
NORTH SEA OIL (Argus)		
Brent Dated	$10.655	(11.08)

GOLD		
New York: Comex	$288.3	(288.0)
London:	$285.85	(288.15)
DOLLAR		
New York:		
£	1.6595	(1.657)
€	0.8839	(0.8655)
SFr	1.3865	(1.3873)
Y	114.04	(114.05)
London:		
£	1.6596	(1.6574)
€	0.864	(0.8648)
SFr	1.3863	(1.3825)
Y	114.135	(113.935)
Tokyo Close		Y 113.6
EURO (London)		
$	1.1574	(1.1582)
£	0.6974	(0.6975)
Y	132.094	(131.732)
SFr	1.6045	(1.5885)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.18)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.75	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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ANTI-BALLISTIC MISSILE TREATY MADELEINE ALBRIGHT RE-STATES COMMITMENT DESPITE PLAN TO RESEARCH NEW DEFENCE SYSTEMS

US seeks to allay Russian fears

By John Thornhill in Moscow and Stephen Fidler in Washington

Madeleine Albright, US secretary of state, yesterday tried to calm Russian fears that the US intended to abandon the Anti-Ballistic Missile (ABM) treaty, saying it remained "central to our whole arms control structure".

The treaty has become the latest issue of contention in a US-Russian relationship some observers say has reached its chilliest point since the end of the Cold War. The treaty, originally signed by the US and Soviet Union in 1972, has been called into question by a US decision this month to intensify research into a limited national missile defence system.

Although the US administration is increasing research spending on anti-missile technology, Mrs Albright stressed that no deployment of a national missile defence system – assuming it works – could take place until 2005.

"I think it is a big mistake if people believe in some form or another that decisions on deployment have been taken," she said at the end of a two-day visit to Moscow.

Mrs Albright said that although the US remained committed to the ABM treaty, both countries had to consider the new security threats posed by rogue powers with access to rocket technology and to strengthen their defences accordingly.

The Pentagon said last week a decision on whether to use a limited national missile defence system – far less ambitious than the "Star Wars" system envisaged by President Ronald Reagan in the 1980s – would be made next year. The aim was to counter the threat of missile attacks from "rogue" nations such as North Korea.

Igor Ivanov, Russia's foreign minister, said his government was studying the US proposals, which have raised alarm in Moscow and prompted thinly veiled threats that any unilateral US moves could permanently derail the Start I and Start 2 nuclear disarmament agreements. The latter has yet to be ratified by the Russian state Duma.

Both countries had to consider new security threats, said Mrs Albright

"We believe that further cuts in strategic offensive weapons can be done only if there is a clear vision for preserving and observing this [ABM] treaty as the cornerstone of strategic stability," said Mr Ivanov.

Russia and the US have already renegotiated the ABM treaty to allow defence systems against lower speed missiles. But the renegotiated treaty would not permit the means to defend against intercontinental ballistic missiles, higher speed weapons now viewed as the main threat.

William Cohen, US defence secretary, said last week the treaty could be amended again by negotiation with Russia to take account of the proposed missile defence system. He said either party could withdraw from ABM given six months' notice "if a party concludes it's in its supreme national interest".

Russian officials were briefed before the announcement. US officials said the system proposed would aim to counter a small number of incoming missiles and would have no effect on the strategic balance between the US and Russia, which still has a huge nuclear arsenal. However, the announcement fed gathering Russian fears that its superpower status is being further undermined by provocative US actions.

The Pentagon decision appears to have little to do with Russia. The Pentagon has long favoured building a missile defence system, but the Clinton administration had held back, despite intense pressure from Republicans in Congress who argued the US was at risk from missile attack.

Several developments over the past few months have led to a shift in the administration's position – beyond the domestic political reasoning of denying the Republicans an election year campaign issue.

In August, North Korea launched a test missile, unexpectedly containing three stages, which could theoretically threaten Alaska, Hawaii and parts of continental US.

This followed a July report to Congress by a special commission headed by Donald Rumsfeld which argued new missile threats were developing and the US might have "little or no warning" of operational deployment of new ballistic missiles.

Vatican changes rules on exorcism

By James Blitz in Rome

The Vatican yesterday revised the Catholic Church's rites to exorcise the devil for the first time in four centuries, but it warned that belief in the devil's existence was essential for the faith.

Unveiling a new 84-page red leather-bound book, a senior Vatican official underlined Pope John Paul's belief that the devil is very much in the world and, in the pontiff's view, "a cosmic liar and murderer".

Cardinal Jorge Medina Estevez, who presented the revised rites at a Vatican press conference, said: "The existence of the devil isn't an opinion, something to take or leave as you wish. Anyone who says he doesn't exist wouldn't have the fullness of the Catholic faith."

The cardinal said the devil's force comes through widespread acceptance of "lies and deceit, idolising money and idolising sex".

Under Catholic teaching, bishops may carry out the exorcism rite themselves or nominate one priest in their dioceses to do so. According to senior Church figures quoted in La Repubblica newspaper at the weekend, the number of Catholics who are exposed to some form of diabolical force is about five or six in every 1,000.

Even with yesterday's changes, the rite of exorcism remains essentially the same. It involves making the sign of the cross, laying on of hands, sprinkling holy water and ordering the devil to leave the possessed person. However, the new rites make some amendments to the 21 rules for exorcism drawn up by Camillo Borghese, later Paul VI, in 1614. The revisions, which have been worked on for years by a group of international theologians and liturgical scholars, take some account of the evolution of psychiatric medicine.

In particular, they warn exorcists against attempting to heal people who are, in reality, mentally ill. Exorcists must "not think possessed by a demon someone who is suffering from some illness, above all psychic", or who is "the victim of one's own imagination".

France's first nuclear-powered aircraft carrier Charles de Gaulle leaves the port of Brest for its first sea trials yesterday, accompanied by seven tug boats. The Charles de Gaulle, which took 10 years to build at a cost of almost FFr20bn (€3bn, $3.53bn) will become the flagship of the French navy when it enters service at the end of 1999. Problems in developing the nuclear propulsion, however, could lead France to consider using conventional power for a planned sister carrier. The Charles de Gaulle is 261.5m long, 75m high, 64.3m wide and displaces 34,600 tonnes. It can carry 40 aircraft and will replace France's last surviving aircraft carrier, the Foch, which has been in service for nearly 40 years. Despite all the high technology, the Foch is faster than the Charles de Gaulle – 32 knots against 27. Reuters

EU seeks to ban vehicle bull bars

By Michael Smith in Brussels

The European Commission is to propose a ban on built-in bull bars on new cars amid concern that improvements in car safety have benefited passengers at the expense of pedestrians.

Neil Kinnock, transport commissioner, said the ban on the metal bars fitted across the front of vehicles would be part of a package of manufacturing standards he planned to bring forward in the summer to guarantee higher levels of pedestrian protection.

He disclosed his intentions while welcoming results of a Commission-backed study showing improved levels of safety for drivers and passengers of best-selling family cars.

Mr Kinnock said there was a downside. "It seems that as cars are being designed to offer greater protection for occupants, the rigidity of the structure is becoming less forgiving to potential pedestrian victims". Frontal structures of cars were being strengthened in a way that could cut pedestrian protection. The proposed ban on bull bars is likely to be welcomed by consumer groups which have long argued of their dangers.

However, the Commission is unlikely to recommend a ban on motorists fitting bull bars on to their vehicles after they buy them, because that would be a subject for national legislation.

The tests were carried out by the European new car assessment programme (EuroNCAP) which is backed by the Commission, the Dutch, Swedish and British governments and by European motoring and consumer organisations.

Of the six cars tested, the Ford Focus, Mercedes A Class, Opel Astra and Renault Megane scored maximum four-star ratings for protection in accidents involving front and side impact. The Ford Escort and the Nissan Almera received two stars.

COALITION DISPUTE EU COMMISSIONER IN CONTROVERSY OVER ALLEGED DONATIONS

Political gift claim rocks Dublin

By John Murray Brown in Dublin

A dispute over alleged political donations to Padraig Flynn, Ireland's European commissioner, is threatening the stability of Ireland's 18-month-old minority coalition, with Bertie Ahern, the prime minister, under pressure to clarify his links with the businessman behind the claims.

Relations between Mr Ahern's populist Fianna Fail party and his coalition partners, the right of centre Progressive Democrats (PD), worsened yesterday when Mr Ahern admitted holding three meetings with Tom Gilmartin, a London-based Irish-born property developer. On Monday Mr Ahern had said he could recall only one such meeting.

Mr Gilmartin says there were four meetings at which he told Mr Ahern of the donation of I£50,000 (€63,490, $73,500) to Mr Flynn when Mr Flynn was a Fianna Fail minister. Mr Flynn has said he did not take any "money for favours".

The row took off after Mr Flynn's denials on a Dublin television chat show so incensed Mr Gilmartin that he reversed his earlier decision and said he would give evidence to a government-appointed tribunal into planning irregularities.

John Bruton, the conservative Fine Gael leader, and Ruairi Quinn, Irish Labour party leader, said yesterday they might call for a vote of no confidence in Mr Ahern, which could trigger an early general election. Fine Gael has formally demanded the suspension of normal Dail business today to discuss the allegations.

Flynn: denies claims

Before yesterday's acknowledgement by Mr Ahern, Mary Harney, the PD leader, had offered him only qualified support, commenting she had no reason "as of now" to disbelieve his version of events. But Ms Harney's party members face a quandary. They are anxious to distance themselves from the sleaze claims targeted at Fianna Fail, yet aware that if they pull out of government, with only four Dail seats they may not survive as a party.

The more immediate casualty could be Mr Flynn, the social affairs commissioner. Even before this latest row, the loquacious former Mayo county councillor, seemed unlikely to be nominated by the Irish government for another term. But such is the anger at his cavalier mishandling of the scandal that some Fianna Fail deputies were yesterday demanding his immediate resignation.

The allegations have set back efforts to draw a line under Fianna Fail's chequered past, usually associated with Charles Haughey, the former prime minister, who faces investigations into his tax affairs and his acceptance of a I£1.2m gift from a Dublin stores owner.

Bonn sets up EU financing timetable

By Quentin Peel and Ralph Atkins in Bonn

The German government has drawn up a hectic timetable and negotiating strategy to reach agreement by the end of March on the future financing of the European Union.

It will involve no fewer than two summit meetings and seven alternative ways of reducing its own heavy net budget contributions.

Any hopes of reaching a deal by the deadline will require big concessions by all 15 member states, according to senior German officials working on organising the programme for their country's six-month EU presidency.

Other EU diplomats believe their chances of success are no better than 50:50, and fear that failure in March could delay any agreement beyond the end of 1999, when the present legal basis for EU financing officially expires.

The new red-green coalition in Bonn is adamant that any solution must involve a cut in its own DM22bn (€11.2bn, $13bn) burden of net contributions, as well as a freeze on the growth of all EU spending up to 2006.

It is also determined to force through a real reduction in spending on the common agricultural policy, which consumes almost half the Brussels budget.

The drive for a compromise will bring great political pressure to bear on Britain to agree to renegotiate its existing budget rebate of about €3bn ($3.5bn) a year.

Senior political advisers in Bonn say that Gerhard Schröder, the German chancellor, is ready to blame the UK for failure if the British government refuses to contemplate any change in the present system.

At the same time, France would be hit hardest by proposed changes in farm policy, while Spain is being asked to accept large cuts in the "cohesion" funds it receives to catch up other economies in the euro-zone.

The latest proposals drawn up in Bonn would also hit Italy, which has hitherto escaped relatively lightly in attempts at fairer sharing of the EU financing burden.

Germany is suggesting scrapping budget contributions based on value-added tax (VAT) and linking contributions more directly to gross national product – a change which would hit Italy hardest, followed by Belgium, Denmark and Finland.

"We want a compromise that is workable," says Günther Verheugen, Germany's European affairs minister, who is involved in the talks.

"But we are under domestic pressure. Any solution is not automatically a good solution."

Germany is suggesting seven alternative ways of reducing its excessive net contributions, as well as those of Austria, the Netherlands and Sweden.

As outlined by officials in Bonn, the suggestions would require all member states to make concessions.

They include: real stabilisation of farm spending at the 1999 budget level; spending on structural funds not to increase above the annual average of 1994-99; a cap on net contributions at a specific level – say 1.3 or 1.4 per cent of gross national product; and abolition or renegotiation of the UK rebate.

Also included would be: the scrapping of cohesion funds for countries now in the euro-zone; co-financing of part of the farm budget by national capitals; scrapping the VAT-based part of national contributions to the EU budget in favour of the fairer GNP-base, and allocating regional funds purely on the basis of regional per capita incomes.

The problem for Germany is that its own determination to reduce its net contributions could well be the main factor complicating the negotiations on the whole financial package, known as Agenda 2000. But Bonn insists there is understanding for its position.

"Everything is still on the table," Mr Verheugen said. "Co-financing meets real resistance from the French. It is not only President Chirac. But we are still talking. We are also talking to the UK about the rebate.

"If we say it must be dealt with in isolation, we get a flat No. But if we talk about the whole package, and if the whole package eliminates reasons for the rebate, we can perhaps talk about it."

To push through the package, the German government is proposing a week-long farm ministers' council at the end of February, followed immediately by an informal summit of EU heads of state and government at the Petersberg state guest house outside Bonn.

Finance and foreign ministers will meet again in early March, with a final deal at the end of the month.

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NEWS DIGEST

NATO TO ISSUE WARNING TO SERBS

West may force Kosovo combatants into talks

The major powers were reported yesterday to be planning to force Yugoslavia and the Kosovo Albanians to open direct peace talks within 10 days or face Nato military action – but both sides responded coldly.

Western diplomats said foreign ministers of the six-nation Contact Group would meet in Paris on Friday to issue a virtual summons to negotiate on a plan for interim self-rule in the Serbian province of Kosovo, once Nato has sent a fresh warning to President Slobodan Milosevic of Yugoslavia, due today.

The aim is to hold continuous face-to-face negotiations, probably in Vienna, mediated by the US envoy, Christopher Hill, the European Union Kosovo emissary, Wolfgang Petritsch, and possibly Russia's deputy foreign minister, Alexander Avdeyev.

However, the Yugoslav deputy prime minister, Vuk Draskovic, said he saw no point to the western plan for direct peace and said the international community should emphasise that Kosovo province was part of Serbia.

In Pristina, Albanian leaders, including those representing separatist guerrillas, said they would not take part in talks on the province's future until Serbian forces stopped attacking their people. **Reuters, London**

INTERNATIONAL OLYMPIC COMMITTEE

Switzerland confirms tax break

Switzerland is pressing ahead with plans to give the International Olympic Committee a valuable tax break in order not to damage its chances of winning the 2006 winter games in the Swiss city of Sion. The economy and taxation committee of the lower house of parliament has voted by a majority of 12 to 11 to make the IOC and the Olympic Museum exempt from a new value-added tax.

Switzerland is home to many international, non-profit organisations that have traditionally paid no tax. The IOC has been free from direct government taxation since 1981. However, the timing of the Swiss decision is embarrassing since it comes only days after the executive board of the IOC tried to expel six of its members for accepting favours from Salt Lake City, which will host the 2002 winter Olympics.

Sion is vying with Klagenfurt (Austria), Zakapone (Poland), Helsinki (Finland), Poprad-Tatry (Slovakia) and Turin (Italy) for the 2006 winter games.

Kaspar Villiger, Swiss finance minister, is understood to have been against exempting the IOC from the tax but was overruled by other ministers. The plan has already been approved by the upper house of the Swiss Parliament but still needs the final approval of the lower house.

Adolf Ogi, Swiss sports minister and a former ski champion, said if Switzerland had reneged on the decision to exempt the IOC from VAT, it would have thrown into question Sion's candidature. **William Hall, Zurich**

WORLD BANK LOAN

Romania pressed on reforms

The World Bank yesterday imposed conditions on the granting of a $300m structural adjustment loan to Romania to help restructure its weak financial and banking sector, requiring that the country continue on the path of economic reform.

Referring to Romania's previous non-compliance with World Bank loan accords, Andrew Vorkink, the Bank's Romania director, said agreements must be adhered to and followed through. Mr Vorkink was speaking at the end of a six-day visit to Bucharest.

Both the World Bank and the International Monetary Fund are making conditional fresh credits to Romania after the passing of this year's draft budget, planned to run a deficit equal to 2 per cent of gross domestic product, and the re-capitalisation of Bancorex, a state bank.

Unless Romania can secure fresh loans, it risks defaulting on its foreign debt. This year, the country faces foreign debt service payments of $2.9bn. Official foreign reserves stand at $1.8bn. **Joe Cook, Bucharest**

CZECH ECONOMY

Growth forecast slashed

The Czech finance ministry has slashed its forecast for economic growth because the country's recession is proving longer and deeper than expected.

The ministry has changed its growth forecast for 1999 from a 1.8 per cent increase to a decline of 0.2 per cent. It has also revised its prediction for average inflation down to 5.1 per cent from 7.8 per cent, and raised its unemployment forecast to 9.5 per cent from 8.7 per cent.

The Czech Republic has already experienced three quarters of negative growth and the finance ministry expects last year's overall decline to total 2.6 per cent.

The change in the forecasts casts doubt on whether the government will keep to its fiscal deficit target of Kč31bn ($990m) this year, around 1.6 per cent of gross domestic product. **Robert Anderson, Prague**

PORTUGUESE WAGES

Public sector pay rise agreed

Portugal's Socialist government agreed yesterday to a 3 per cent wage increase for public sector workers, partly to compensate for inflation in 1998, which was substantially higher than the official target.

The agreement, which is also traditionally used as a benchmark for private sector pay deals, envisages an increase in real wages of 1 per cent, given the government's 1999 inflation forecast of 2.0 per cent. António Guterres, prime minister, had promised public sector workers that any loss in real wage gains because of higher than forecast inflation last year would be made up in 1999.

Unions agreed to a 2.75 per cent wage increase last year, after annual average inflation rose to 2.8 per cent, one of the highest levels in the euro-zone, after a forecast of 2.0 per cent.

Some analysts warned that Mr Guterres was setting a dangerous precedent of indexing pay to inflation. But a senior bank economist said yesterday that the 3 per cent increase was "tolerable" in an election year. A general election is due in October. **Peter Wise, Lisbon**

UKRAINE DEBT

IMF holds back loan tranche

An International Monetary Fund mission left Ukraine yesterday without recommending disbursement of the monthly tranche of a $2.2bn, three-year loan after Ukraine failed for the third month in succession to meet many of the programme's conditions. Mohammed Shadman-Valavi, leader of the mission, said, however, that negotiations would resume again within a few days.

Without the loan, Ukraine may default on large debt service repayments. **Charles Clover, Kiev**

Turkey seeks to win IMF praise and support

By Leyla Boulton in Istanbul

Turkey will today begin efforts to persuade the International Monetary Fund that it deserves praise and pledges of financial support for continuing its economic reforms in the run-up to a general election on April 18.

A delegation from the Fund is arriving today to begin an assessment of the country's progress in carrying out an 18-month reform programme agreed last year.

Bulent Ecevit, the centre-left caretaker prime minister, recently called for IMF help to ease the burden of $24bn in debt-servicing obligations due during the first four months of this year.

Mr Ecevit has promised to avoid Turkey's tradition of pre-election spending sprees. He and the two centre-right parties that support his minority government are trying to agree to push through parliament next week a budget for 1999 and a law to strengthen supervision of the banking system.

Officials are also due to consider how they can restart a privatisation process stalled late last year by corruption scandals, which brought down the previous government.

Ajay Chhibber, World Bank director in Ankara, said Turkey had by and large met inflation and fiscal targets agreed with the IMF for last year and deserved international help if it continued efforts to stabilise the economy.

The Bank for its part is preparing a loan to provide working capital for otherwise strong Turkish exporters hit by high real interest rates. Erkut Yucaoglu, chairman of Tusiad, the Turkish business confederation, described high real interest rates – which recently shot up to 50 per cent – as "the only thing that has gone astray" in Turkey's stabilisation efforts.

Like other Turkish businessmen, he argued that verbal support boosting the confidence of the international financial community in Turkey was the biggest contribution that could be expected from the Fund before an election.

This could lower the cost of borrowing and improve Turkey's access to cheaper foreign loans.

"Sentiment is very important," agreed a spokesman for Akbank, one of the country's biggest private sector banks. "The Turkish economy so far has dealt with the global crisis very well, so any positive signal coming from the international community, especially the IMF, is very important for the Turkish economy and its access to international funds."

Aznar hopes for progress on long march to the centre

Spain's prime minister is seeking to modernise his party while still retaining its conservative polices, writes **David White**

Leading a centre-right government in western Europe is a lonely experience these days. Shortly before José María Aznar led his Popular party (PP) to victory in Spain three years ago, Portugal went the other way, electing a Socialist administration after a decade of centre-right rule. Since then Italy, Britain, France and Germany have also chosen governments of the left.

But the Spanish prime minister has a plan to recast the image of his conservative party, mirroring the UK Labour party's redesign under Tony Blair and aimed at breaking the moulds of traditional perceptions about right and left .

At a party congress this weekend, the first since he won power almost three years ago, he wants to give the PP a younger, softer profile, projecting it as a pragmatic, user-friendly party.

Mr Aznar has established surprisingly good relations with Mr Blair, an almost exact contemporary. And Spain has found some common ground with the UK in the European Union, notably on labour policy.

In the European Christian Democrat grouping, the European People's party, set to meet in Brussels next week, he has taken over the mantle of Helmut Kohl, the former German chancellor, as chief luminary.

His government rides high on solid economic growth, increased employment, low inflation and general confidence about Spain's future in the Europe of the euro. The PP has pulled ahead in the polls. The Socialists, who have not yet regrouped into an effective opposition, trail between four and nine points behind, the biggest gap since the 1996 elections.

Re-election next year now appears easily within the PP's reach. But the party still faces a barrier to its electoral potential: a lingering tendency of many Spaniards to associate it with the old Spanish right and the post-civil war dictatorship, which ended only with General Franco's death in 1975.

Mr Aznar is looking for a crucial breakthrough to achieve the absolute parliamentary majority he now lacks, or at least come close enough to be able to do without regionalist allies.

The centrist platform has more to do with marketing than changes in substance. One senior government planner said there was no proposal to alter course on existing economic or social policies. "Centrism is not revolution," he declared. It was, however, "a good political message".

Mr Aznar began the changes last summer when he dropped a distinctly high-handed cabinet spokesman. At the PP congress, he wants a wide-reaching generational shift, taking a lesson from the experience of the Socialists, who failed to renew their hierarchy during 13 years in government.

He has already named 41-year-old Javier Arenas, who as labour minister got on rather better with unions than with employers' leaders, to run the party full-time as secretary-general. Like several other top Aznar aides, Mr Arenas came to the PP from the defunct Union of the Democratic Centre, the centrist party that governed during Spain's early post-Franco transition.

The secretary-general for the last 10 years – since shortly before Mr Aznar became leader – was Francisco Alvarez-Cascos, a bull-like figure who has played the role of strongarm man. He remains deputy prime minister but has been discredited by an embarrassing mess in his electoral bailiwick, the northern Asturias region. Falling out with the regional president, he tried to force him from office and ended by forcing him out of the party instead, provoking the formation of yet another regionalist party and depriving the PP of its relative majority in the regional parliament.

However, there was never any question about Mr Alvarez-Cascos' loyalty to Mr Aznar. The PP is not a party open to rival factions. The quietly determined Mr Aznar has it ever more under his thumb, talking increasingly of its ambitions in the first person singular.

Many saw his way of ordering the changes as Olympian. He named not only the PP secretary-general, to be chosen by the party this weekend, but also the new president of the senate. The PP's majority in the upper house guarantees that its candidate wins but it is still supposed to be an elected post.

Until last week, Mr Aznar doggedly kept the same cabinet team for 32 months, a record since Franco times. The changes, when they came, were minor, dictated mainly by electoral considerations. More new faces are expected in the party.

The aim of making "a moderate party of the centre" goes back to Mr Aznar's arrival as PP leader in 1990. "This voyage to the centre is longer than Mao's long march," Felipe González, former Socialist prime minister, commented sarcastically. "Where could they be coming from to take so long getting to the centre?"

Unlike the Socialists on the left, the PP occupies a whole spectrum from the centre to the right, with no serious far-right competitors other than isolated rabble-rousers. This hegemony, shared only with conservative regionalist parties, makes it vulnerable to attack. Mr Aznar's appearance on a Barcelona campus this month attracted a "Fascists out" protest, countered by heavy-handed police action that led the university to declare the prime minister *persona non grata*.

Although the PP's top echelons have been modernised, there are still traces of the old guard at town and village level. The PP-controlled council of Santander, a regional capital, drew attention recently by refusing to change the name of the square outside the city hall. It remains, in honour of Franco, *Plaza del Generalísimo*. None of this is likely to be visible at the party congress, however. The government and its policies may show little change, but this is the occasion for the launch of Aznar Mark II.

José María Aznar (right) with Tony Blair last year. Aznar is hoping to mirror the UK Labour party's redesign under Blair AP

Court boost for parallel vehicle importers

By John Griffiths

The Belgian sales subsidiaries of four Japanese motorcycle manufacturers have been fined a total of BFr45.8m (€1.1m, $1.3m) by the European Court of Justice for anti-competitive practices hindering the sale of their machines by parallel importers.

The Belgian sales companies of Honda, Suzuki, Yamaha and Kawasaki were found guilty of a number of practices making it difficult for parallel importers, seeking to sell new motorcycles obtained through non-franchised channels for up to one-third less than the manufacturers' outlets, to obtain homologation certificates. Such certificates confirm the machines' compliance with Belgian vehicle legislation.

The court's decision, in a little publicised judgment last week, could help the case of unofficial car importers across Europe fighting to sell Japanese and other cars at below the prices set by manufacturers.

Motorcycle and car makers have become increasingly concerned at the activities of the parallel importers across Europe. Prices of new motorcycles have plunged by about 30 per cent as manufacturers have increasingly been forced to to match prices for "grey" imports. Grey imports already account for one quarter or more of total motorcycle sales in some EU markets such as the UK.

Honda last month started legal proceedings against parallel motorcycle traders in the UK, alleging that the dealers' activities infringe its trademarks. An initial hearing is expected in the High Court next month.

Honda is invoking recent precedents set by EU rulings favouring trademark owners Levi's jeans and Silhouette sunglasses in cases against supermarkets.

VENTURE CAPITAL CALL PLAN TO CREATE WORLD-CLASS HIGH-TECH ENCLAVE HELD UP BY LACK OF FINANCE

Beijing in 'Silicon Valley' push

By James Kynge in Beijing

The authorities running China's "Silicon Valley" are preparing to seek foreign venture capital to realise plans to create one of the world's leading high-tech enclaves in Beijing.

The development plan for the Haidian experimental high-technology zone envisages that the total revenues of companies within the zone will increase from Rmb45bn ($5.4bn) last year to Rmb300bn in 2010.

Officials said that to achieve this, investments of at least Rmb100bn would be needed by 2010. "We are welcoming foreign venture capital companies and also trying to increase the role of domestic venture capital firms," said Wang Sihong, director of Haidian's administration commission.

"The [central] government has realised there is a problem of insufficient venture capital," she added. Ms Wang said that authorities would soon approve the setting-up of a Sino-foreign venture capital company, and other approvals would follow.

Several investments have already been made in Haidian companies by foreign venture capitalists, some from Silicon Valley in California, company executives said. But inertia and insufficient skills among China's big four state-run banks have meant that many promising young companies have been unable to raise finance.

"The state banks will not lend more than the collateral value of your real estate," said Wang Zhidong, president of Sina Inc, a software and Internet company. "They have little ability to assess intellectual value."

Supplied by graduates from Beijing and Qinghua Universities, the Haidian area buzzes with intellectual energy. Some companies, such as Legend, the leading mainland Chinese computer company, have grown rapidly from humble origins in Haidian and are now big enough to secure lending from Chinese banks.

But the number of smaller companies chronically short of capital is large. Kexing, a biotechnology company with about 50 per cent of the domestic Interferon drug market, had to sell a majority stake to various foreign and local venture capital interests because it could not raise funds by borrowing domestically. It was still searching for investors, said Pan Aihua, Kexing's managing director.

However, intellectual property protection in China is poor and opaque company structures sometimes make it difficult to ascertain ownership interests. Another problem has been that official permission for stock market listings has overwhelmingly favoured China's large state companies rather than small private enterprises. Gaining permission to list abroad can also be problematic.

Foreign banks look to reduced role in a bruised China

James Harding considers the knock-on effect of a growing credit squeeze

As the tide of foreign credit to Chinese borrowers has ebbed since the collapse of a high-profile investment company last year, several other such investment vehicles have been left stranded.

In recent days there have been signs that the effects of the credit squeeze are spreading. Another small "Itic" – the international trust and investment corporations that serve as the investment arms of China's provinces and other authorities – was confirmed in default on its foreign debt last week. And the investment company for Fujian province told its bankers it would have to defer principal repayments on a $80m loan.

More prominent Chinese borrowers – State Development Bank and China International Trust and Investment Corporation (Citic) – have put plans for international bond issues on hold. Officials at some of the regional commercial banks are saying they are feeling the pinch from an international lending community in retreat from China risk.

Now analysts have begun to ask whether the drain on liquidity is set to leave a range of Chinese companies and financial institutions on the rocks, and if so, which ones.

Foreign investor confidence in China has deteriorated significantly since the abrupt closure in October of Guangdong International Trust and Investment Corporation (Gitic), a prominent Chinese borrower shut down on Beijing's orders despite backing from the provincial government.

"Beijing was correct in its intentions to rectify the Itics and the financial sector," says a banker at Citic Industrial Bank, the bank owned by the first and largest of the Itics, Citic. "But the measures have been too strong. There is a sense of psychological panic spreading among the foreign banks."

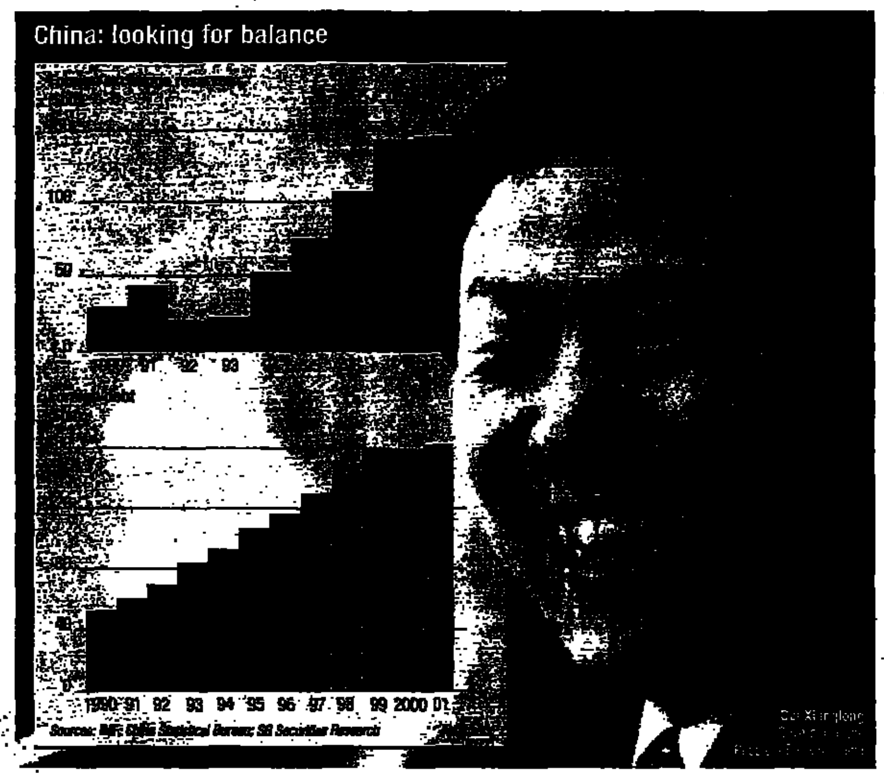
The mood among investors is expected to be influenced by a statement due to be made today by Dai Xianglong, the central bank governor, in which he will outline plans for the restructuring of the remaining 239 trust and investment companies.

A foreign banker in Shanghai says: "Every Chinese organisation that wants to raise funds is going to find itself tainted by association if not connection with Gitic."

However, the impact is likely to be uneven and, overall, limited.

China's financial system is largely insulated from overseas sentiment. The currency, the renminbi, is not freely convertible. The country's $145bn in foreign exchange reserves more or less cover total foreign borrowings, which by recent projections based on China's central bank figures were about $143bn at the end of 1998. International loans account for only a tiny fraction of total credit in a country where the big four banks do about 90 per cent of the lending business.

China: looking for balance



The foreign credit squeeze is, therefore, causing some pain, but it is a question of degree.

The Itics, the bottom band of China's overseas borrowers, are in the most acute discomfort, in some cases, the withdrawal of international liquidity is likely to prove fatal.

Under Mr Dai's plan to be announced today, some of the Itics may be relaunched as securities dealers, insurance agents or asset management companies. But more closures also look likely.

Yuan Gangming, director of the macroeconomic research centre at the Chinese Academy of Social Sciences, the government think-tank, was quoted over the weekend saying: "As the first trust firm to have filed for bankruptcy, Gitic's example might create a precedent for the handling of other insolvent trust firms."

Some other non-bank financial operators a notch up the ladder of China's foreign borrowers, such as provincial government window companies, infrastructure projects with Itic-guaranteed or provincial government-guaranteed debts and joint venture leasing companies, are also reported to be struggling to meet foreign debt payments.

The mismatch of maturities at provincial agencies, which have borrowed in the short-term to fund long-term investments such as property and infrastructure, has left them vulnerable. "Every second-tier financial institution is left exposed," says a foreign lender in Shanghai.

The next band up, the regional development and new commercial banks, are also feeling the strain, but they say it is one they can withstand.

Even the "big four" state-owned commercial banks, which may be technically insolvent but still account for about 90 per cent of banking business in China, are not completely immune. An official at Bank of China, the state-owned bank with the largest foreign operations, says: "We have also been affected by the Gitic problem. If we tried to come to the market to issue a loan, it would be more difficult in terms of the pricing."

Foreign banks operating in China are therefore likely to gravitate towards foreign borrowers operating in the country.

"It is going to be a buyers' market," says one European banker, ironically observing that as foreign lenders shrink away from Chinese entities, foreign-invested companies in China will become even more keenly sought-after customers both by international banks and Chinese financial institutions with growing foreign currency deposits to lend.

He says: "Foreign banks are going to find themselves able to do less lending business in China. Many of us will end up doing advisory work."

Pakistan, India set for fresh N-talks

By Peter Montagnon, Asia Editor, in Washington

India and Pakistan will have to continue to pay a price for non-adherence to the global nuclear Non-Proliferation Treaty (NPT), even if they can reach agreement with the US on the lifting of sanctions imposed after their tests last May, according to analysts in the US.

The problem of meshing any agreement with the NPT remains a central issue as the eighth round of talks begins with India in Delhi on Friday, followed by a session with Pakistan in Islamabad at the start of next week.

Strobe Talbott, US deputy secretary of state, who is to lead the US delegation, would say only that the issues surrounding the sanctions remained tough and would require patience to resolve. "We and our Indian and Pakistani interlocutors are going to have to keep working on it," he declared. He has previously warned of the dangers of an agreement that would inadvertently provide an incentive for other countries to "blast their way into the ranks of the nuclear weapons states".

Analysts said this meant India and Pakistan could not be seen to be rewarded for their nuclear tests by elevation to the formal status of nuclear powers alongside the US, Russia, China, the UK and France.

Were this to happen, other countries would quickly try to follow suit, and the NPT could unravel. Nor are India and Pakistan ever likely to agree to renounce nuclear weapons in the style of South Africa and join the NPT as non-nuclear states entitled to the benefit of civilian technology transfer.

A crucial consideration for the US position is the desire not to establish a half-way house in which *de facto* nuclear states still have the benefits that accrue to non-nuclear ones. This consideration has complicated the talks. The US is still seeking progress in four basic areas –, commitment to refrain from testing and deployment of weapons, an end to production of fissile material, and introduction of strategic weapons controls – as well as bilateral discussions to try to resolve their disputes over Kashmir.

Progress has been made on testing, with both governments having indicated their willingness to sign the Comprehensive Test Ban Treaty, and on export controls. But less advance has been made on fissile material and missile development.

NEWS DIGEST

VOTE-RIGGING CHARGES

Sri Lankan ruling party captures vital council

Sri Lanka's ruling party yesterday captured a vital local council amid allegations of large-scale vote-rigging and violence. Dayananda Dissanayake, elections commissioner, said nine ballot boxes were either stolen or destroyed while in about 25 per cent of polling booths ballot boxes had been "stuffed".

"We have taken away the ballots that were stuffed by armed groups," Mr Dissanayake said while announcing that the nationally ruling People's Alliance had won 30 seats in the 52-member North-Western Provincial Council.

The opposition United National Party (UNP), which won 19 seats, said it completely rejected the results, and that its members would not take their seats in the council, the highest level of local government in the region.

Three seats in the council went to the leftwing JVP, or People's Liberation Front, which accused the government of vote-rigging and demanded fresh elections. D.M. Jayaratne, general secretary of the ruling PA party, said he believed the election was "generally free and fair" and accused the opposition of orchestrating violence.
Amal Jayasinghe, Colombo

SPUR TO DOMESTIC DEMAND

China eases monetary policy

China has identified deflation as a central economic problem and adopted a looser monetary policy to stimulate domestic demand. The Financial News, the central bank's newspaper, said yesterday while previous "appropriately tight" monetary policy would be kept as a long-term goal, an "appropriate" short-term policy would be adopted to accompany a fiscal stimulus package and boost economic growth.

It defined "appropriate" as meaning money supply would be increased to combat deflation, and that the policy would be altered to suit prevailing conditions rather than being static. The number of non-performing loans should be prevented from increasing, the paper added, indicating that lending should be directed more at infrastructure projects, house purchases, export support, and credit for small and medium enterprises. **James Kynge, Beijing**

OLYMPIC SCANDAL

Swimming officials under fire

Australian officials yesterday described as "outrageous" alleged demands for first-class treatment by officials of the International Amateur Swimming Federation, (Fina), highlighting the knock-on effect of the scandal engulfing the International Olympic Committee.

During the world swimming championships in Perth in 1991 and 1998, Fina executives had demanded first-class flights, five-star accommodation and chauffeured limousines as part of Perth's host city agreement, Graham Edwards, a former Western Australian sports minister, claimed. "We had to agree to those things in the contracts to get them to stage the championships here," he said. The alleged demands, contained in contracts between Fina and the Perth organising committee, cost the city several hundreds of thousands of dollars, state officials said.
Gwen Robinson, Sydney

Tokyo may help to unwind cross shareholdings

By Michiyo Nakamoto in Tokyo

Members of Japan's ruling Liberal Democratic party have set up a study group to look into the possibility of the Japanese government buying stocks to smooth the way for the unwinding of corporate cross-shareholdings.

The group, which held its first meeting yesterday, will consider whether there are ways to encourage companies to unwind cross-shareholdings without disrupting the stockmarket, according to Okiharu Yasuoka, one of the leaders of the group and an architect of the LDP's financial reform bills.

The LDP move comes on the heels of a proposal by Keidanren, the business federation, for the government to raise up to Y30,000bn ($265bn) in special bonds to buy up to 10 per cent of the market. The LDP has also been mulling the possibility of setting aside Y20,000bn to boost the sagging property market. These proposals have raised concerns that the government, already burdened by a high level of bond issuance, will find itself further in debt.

"There are some people who are very concerned" about the impact of the closing of books on the stockmarket," Mr Yasuoka said. "There is no question that as the financial year-end approaches, companies will unwind their cross-shareholdings to boost their performance.. this is putting pressure on stock prices," he said.

● Hirotaro Higuchi, chairman of Japan's Economic Strategy Council, said yesterday that the Japanese economy was headed for a turnaround because the number of reported suicides had declined at the end of 1998, despite an apparent worsening in corporate profitability, **Alexandra Harney reports from Tokyo.**

"Maybe we have bottomed out. The worst is over," Mr Higuchi told a gathering in Tokyo. He was presenting an interim report on measures to bring Japan out of its longest recession in the postwar period compiled by the Economic Strategy Council, an influential committee of 10 business leaders and academics appointed by Keizo Obuchi, the Japanese prime minister.

The Economic Strategy Council's report did not match Mr Higuchi's optimism for an economic recovery, however. The council's report did not expect any growth in Japanese domestic product until fiscal year 2001, and that is only if "sufficient structural reforms" including a reduction in the number of public servants by 20 per cent, and a fundamental reform of the tax, pension and labour systems were implemented.

Back to basics in Vietnam

By Jonathan Birchall in Hanoi

The Vietnamese Communist party has begun a meeting in Hanoi which is expected to lead to a renewed campaign against corruption and to a leadership reshuffle.

Earlier this month, Le Kha Phieu, who took over as party general secretary just a year ago, said he hoped the coming lunar Year of the Cat would "bring a cat skilled in catching big and giant rats". He called on party and government leaders to combat the triple "plagues" of bureaucracy, corruption and moral degradation.

Second-tier leadership changes to be decided at the deliberations of the 170-member central committee are widely predicted to include Le Minh Huong, minister of public security, taking over as foreign minister from Nguyen Manh Cam, deputy prime minister. Despite his security background, Mr Huong served in Vietnamese embassies in Europe and Japan.

Western diplomats say they also expect the anti-corruption drive to lead to the discreet removal of a number of government ministers, including Tran Xuan Gia, minister of planning and investment, whose ministry is responsible for licensing foreign invested projects.

Elsewhere, however, there has been increasing conservatism on political and economic issues and a return to "basic Vietnamese values".

Earlier this month, the party expelled its most outspoken critic, General Tran Do, a former central committee member, after he called for fundamental political reforms in a series of open letters to the leadership.

The Asian crisis has further reduced Vietnam's enthusiasm for radical economic reforms. One diplomat said that few people were now likely to call for greater market openness.

INTERVIEW LI KA-SHING

HK urged to resume land sales

By Louise Lucas and Rahul Jacob in Hong Kong

Li Ka-shing, one of Hong Kong's biggest property developers, has warned that a continued freeze on government land sales will further erode the territory's competitiveness.

Mr Li's comments, in an interview with the FT, come as the government is deciding whether or not to resume land sales. It introduced a nine-month moratorium last year as part of efforts to stimulate an ailing economy. The government owns and controls the supply of undeveloped land.

Property developers, particularly those with large land banks which benefit from the move to stem supply, have been mixed in their support of a resumption of land sales. Those most in favour are the small to mid-sized developers, who feel they have been squeezed out by the bigger players.

Mr Li said he fully supported resumption. "Over the past few months, the residential market has already rebounded some 15 per cent from the bottom. If the government does not resume land sales and property prices continue to climb, it will further affect Hong Kong's competitiveness," Mr Li said.

"Our support for the resumption of land sales does not mean we are short of land supply. Over the past year we have made many new land investments, about equivalent to the square footage that we have sold," he said.

The moratorium on land sales followed a sharp plunge in property prices, which are now around half the levels at their peak in the summer of 1997, but remain high relative to other cities such as New York and London.

Part of this has been due to the restrictive land supply policy agreed by Britain and Beijing under the arrangements for the return of Hong Kong to Chinese sovereignty. "The government's land policy created a property bubble over the years, and the sudden bursting of that bubble after such a long build-up has had repercussions on our overall economic recovery," said Mr Li.

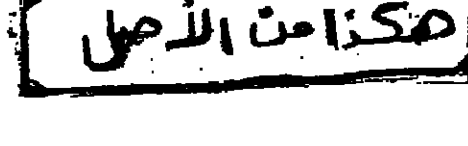

Li Ka-shing

Mr Li's support for a resumption in land sales places him in the same camp as the Democratic party, some of whose members he has recently clashed with over comments on his business *modus operandi*.

Complaints from politicians over his decision to sue defaulting home buyers, and vociferous criticism over his company's successful bid for a plot of land at a sharply lower than expected price, prompted Mr Li to scotch a huge investment, citing a less harmonious political climate.

But Mr Li defended his decision to enforce promises made by contract. In doing so, he said, he was protecting the interests of minority shareholders and the 80 per cent of buyers who honoured their commitments.

"We will act in a fair, reasonable and legal manner. In particular circumstances if individuals have extreme financial difficulties then special consideration will be given."



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Three big guns to fight Israel election

By Judy Dempsey in Jerusalem

The battlelines in Israel's most fiercely contested election in a generation became clearer yesterday after Yitzhak Mordechai, sacked as defence minister, emerged as leader of the new centre party and Benjamin Netanyahu was re-elected Likud leader.

The two will contest the premiership in the May elections along with Labour's Ehud Barak.

Mr Mordechai defected from Likud to lead the new party. Amnon Lipkin-Shahak, former chief of staff and one of the founders of the party, stepped aside as leader on Monday night.

The former general, 54, may lack the charisma of Mr Netanyahu and the dashing looks of Mr Lipkin-Shahak but the latter believes Mr Mordechai has a better chance of beating Mr Netanyahu.

His appointment has caused the governing Likud party sufficient concern that its campaign managers have started taking the new party seriously.

Until recently, Likud focused its criticism on Mr Barak. But yesterday, Mr Netanyahu said centrist party leaders, which include Dan Meridor, former Likud finance minister, were "leftists, no different than Labour". In Israeli right-wing parlance, "leftist" is a derogatory term; they are dovish, pro-Palestinian, soft on security.

If that remains Likud's strategy throughout this long campaign, the centrist party will have to persuade Likud voters – its main target – that it is different from Labour and that it is tough on security, a theme Mr Netanyahu will exploit.

The centrist party has already set out its policies on the peace process. Mr Mordechai said Israel would have to cede some territory on the Golan Heights, captured from Syria in 1967.

But this will prove harder to implement after the Knesset (parliament) yesterday passed a law requiring a national referendum and a parliamentary majority to give up any annexed part of the Golan Heights or Arab east Jerusalem.

Mr Meridor has already told Jewish settlers Israel could not hold on to to all West Bank settlements. Such policies may attract voters from the centre and from Labour. But it will also provide fodder for Likud's campaign against "the leftists".

On the secular/religious divide, the centrist party may find itself in a quandary. One of its founders, Roni Milo, former Likud mayor of Tel Aviv, has sharply criticised the power of ultra-Orthodox Jews. Mr Mordechai, in contrast, is a traditional Jew who has close relations with Shas, an ultra-Orthodox party.

Yitzhak Mordechai with colleagues in the Knesset yesterday. His departure from Likud to lead a new centre party has turned the election into a three-horse race AP

Cell transplants emerge as brain disease cure

By Clive Cookson in Anaheim, California

Scientists are developing several types of living cell for transplanting into the brain as a treatment for illnesses such as strokes and Alzheimer's. Their sources range from animal testicles to human embryos.

Neural transplantation is making rapid progress, its leading practitioners told the American Association for the Advancement of Science. Its aim is to repair diseased or damaged brains with healthy new cells.

Because the cells must be young and flexible enough to grow into the host brain, the only source so far has been the brains of aborted foetuses. Clinical trials show that these ameliorate the symptoms of Parkinson's disease but they are in extremely limited supply, besides being ethically unacceptable to some people.

Paul Sanberg of the University of South Florida is working on alternative sources in collaboration with two US biotechnology companies, Layton Bioscience and Theracell.

One is a line of human cells, derived originally from testicular cancer and transformed into a non-cancerous form resembling neurons. They make various neurochemicals that the brain needs to function properly. A clinical trial to test whether these cells can restore the functions of people who have suffered a stroke started recently at the University of Pittsburgh.

Prof Sanberg's other novel line is so-called Sertoli cells from the testes. They nourish growing sperm while protecting them from attack by the immune system.

Animal experiments show that Sertoli cells relieve the symptoms of neurological disease by supplying growth hormones to the brain. They are effective on their own but work best when transplanted together with embryonic brain cells.

Because Sertoli cells have evolved to avoid attack by the immune system, animal cells – probably from pigs – could probably be transplanted into human brains without the risk of rejection. But clinical trials are at least two years away.

Meanwhile Evan Snyder, a neurologist at Harvard Medical School, is developing what might become an all-purpose source of brain cells for transplantation. His laboratory recently cloned "human neural stem cells" – immature cells that can develop into any more specialised brain cells.

Several years' work on animal models of human diseases will be required before the stem cells are ready for clinical trials.

But Dr Snyder says his research offers the hope not only of replacing foetal cells in transplantation but extending it "to the broader goal of reseeding the entire brain with progenitors that would then take their cue from the existing brain and mature into whatever cell type was needed, wherever it was needed." That could in principle treat almost any brain disease.

Prince's pivotal position in army key to dynastic upheaval

By David Gardner, Middle East Editor

Uneasy lies the head was the inevitable title of the autobiography of King Hussein of Jordan, the improbable survivor of countless plots, coups, insurgencies, three Arab-Israeli wars, the Gulf war, a civil war with the Palestinians, and about a dozen assassination attempts in 46 years wearing the heavy crown of his coveted desert kingdom.

His eldest son Abdullah may well be reflecting on how such a crown will fit him. He was sworn in as crown prince and regent at Amman airport yesterday, as his father unexpectedly flew back to the US clinic treating him for cancer for six months, barely a week after his triumphant return.

The new crown prince, 37, who was made a major-general last year, is a soldier through and through who heads the elite Special Forces – the strike forces of the Bedouin army which is the tribal bedrock of the monarchy. He was said yesterday to be "shocked" at his appointment, having expected his father to call a "family council" to decide the succession.

Until last week, it was universally assumed that Prince Hassan, 51, the king's amiable and eclectically studious brother and confidant, would automatically succeed him. All were aware of tension between Queen Noor – the king's fourth, American-born wife – and Princess Sarvath, Hassan's Pakistani wife, busily pressing the rival claims of their teenage sons, Princes Hamza and Rashid. Yet it was assumed this feuding was about the succession to Hassan, not Hussein. Apparently not, as King Hussein unveiled in a letter to the sacked Prince Hassan yesterday, accusing him of interfering in army appointments during the king's six-months absence, and complaining of a campaign of "whispering, innuendo, and smearing...against my wife and sons."

There has long been debate about the ability of Prince Hassan to lead Jordan. Educated at Harrow and Christ Church, Oxford, he came across very much as an English patrician, gently clubbable but increasingly rightwing and prone to loquacious abstraction, better equipped to discuss rules of origin in international trade than sense Jordanians' frustration at their descent into poverty despite the promise of regional peace with Israel.

By contrast, some Jordanians resent the fact that Prince Abdullah is half British, born of the king's second wife, Toni Gardiner (Princess Muna). Indeed, childhood friends say he has had to struggle with his Arabic, spoken with a heavy Bedouin accent. But his position in the army seems crucial – as the king hinted in his angry letter to his brother.

Aside from the monarchy, the army is Jordan's key institution, as it is in most Arab countries. As head of Special Forces, the Sandhurst-trained Prince Abdullah is at the confluence of the army and the powerful intelligence services. He is extremely popular with the Bedouin ranks and has clashed with his superiors and the palace over their miserable conditions. He is, moreover, married to a Palestinian, the origin of about two-thirds of Jordanians; retaining their uncertain loyalty is part of the art of ruling the kingdom.

A childhood friend describes Prince Abdullah as "down to earth, intelligent, modest and very funny"; settled down after a fast-living youth much like his father's; alive to Jordan's endemic corruption; but who has "yet to leave a fingerprint on the country's politics". He faces formidable problems when he does eventually take over.

Jordan is surrounded by predatory neighbours – Iraq, Syria and Israel (which openly favoured Prince Hassan) – whose leaders show little hesitation in settling political scores on Jordanian soil, threatening to turn Amman into the proxy battle-ground Beirut became before and during the Lebanese civil war. Prince Abdullah himself won popular acclaim last year after eliminating an Iraqi gang responsible for a string of grisly murders in Amman.

It is, moreover, the East Bankers, or native Jordanians, rather than the Palestinian majority, who are most disenchanted with the 1994 peace treaty with Israel and the failure of the vaunted "peace dividend" to materialise. Prince Abdullah will have realised this when he put down bread riots in the loyalist south in 1996.

Beyond King Hussein's vanity at wanting to keep the succession within his own line of the 80-year-old Hashemite dynasty, the key to Prince Abdullah's appointment is not hard to find with hindsight. As a senior palace official remarked before the upheaval: "Security is our holiest row."

See Editorial comment

NEWS DIGEST

'PERSISTING DIFFERENCES OF OPINION'

South Africa's elections chief resigns

The head of South Africa's Independent Electoral Commission resigned yesterday after months of disputes with the government, setting back the country's hopes for a smooth and uncontroversial general election later this year. Johann Kriegler, a 66-year-old former High Court judge who has headed the IEC for nearly six years, complained of "persisting differences of opinion about the role and function of the commission".

He has said the IEC's budget is too small, that government departments do not respect its independence, and that the use of new, bar-coded identity documents by voters could deprive millions of South Africans of the chance to vote. **Victor Mallet, Johannesburg**

'MILLENNIUM BUG'

Poor country computer threat

Just over a third of developing countries have initiated programmes to deal with the "Millennium bug" Year 2000 computer problem and barely 1 in 7 are taking serious steps to protect their computer systems, a new survey by the World Bank has found. Of 139 countries in the study, only 54 had adopted "Y2K" policies and just 21 had embarked on a concrete programme design to safeguard vulnerable economic sectors such as power generation and financial and transportation systems.

The problem arises because many older computer systems are unable to tell the difference between 1900 and 2000, causing potentially serious disruptions.
Mark Suzman, Washington

AIR RAIDS ON IRAQ

US widens choice of targets

A top US official said yesterday the military had been given instructions to widen its targets against Iraqi challenges to the exclusion zones, as US warplanes fired at Iraqi targets for the fourth consecutive day.

Sandy Berger, US national security adviser, said President Bill Clinton had responded to military requests for more expansive rules of engagement after last month's four-day US and British air strikes. "Our pilots understand, and our air force understands, that if there are violations of the no-fly zone, our response will be not simply against the particular source of the violation or source of the threat but our response, as appropriate, will be against any of the air defence systems that we think makes us vulnerable," he said. **Roula Khalaf, London**

Indonesia offers 8-year tax holidays to investors

By Sander Thoenes in Jakarta

Indonesia yesterday attempted to revive investor interest in its shaky economy by offering tax holidays of up to eight years for new projects in 22 industries.

New investments in production of textiles, pharmaceuticals, steel, various machinery and equipment, vehicles and some chemicals can receive a tax holiday of five years if located outside the islands of Java and Bali. Domestic and foreign investments on these two relatively industrialised islands get a three-year holiday.

Additional tax holidays of one year each are available for any project which creates at least 2,000 jobs, involve at least $200m or in which co-operatives, promoted by the current government, own at least 20 per cent. Oil refineries outside Bali and Java are also entitled to the various tax breaks.

Analysts doubted the holidays would draw in many foreign investors, given the shaky economy and political situation, while most local companies need cash for working capital and cannot afford expansion.

The presidential decree is the first major tax holiday offered to industries at large, rather than to particular investors as was the practice under former president Suharto. His successor, B.J. Habibie, has ended some of these privileges, which tended to be contingent on large payments, in line with an agreement with the International Monetary Fund.

It is unclear whether the new tax holidays are in line with the agreement, which calls for higher tax revenues, or whether they comply with commitments to the World Trade Organisation.

Indonesia is also facing a sharp drop in investment, however. Some $12.5bn in investments had been approved between June and October 1998, compared with $33.8bn for all of 1997.

Implementation fell well below the usual 30 per cent. Officials this month said that $2bn in investment approvals had expired without any follow-up, while another $5bn could expire by the middle of this year.

Mr Habibie last year eased some restrictions on investments in sensitive industries, such as banking, and removed some red tape.

The tax holidays are targeted at industries which are most affected by the current crisis, such as car production, or have the most potential to bring Indonesia export earnings, such as textiles. Many are now heavily dependent on imports, which proved fatal when the rupiah collapsed.

The exemptions also encourage investment outside Bali and Java, which remain attractive because of an abundance of cheap labour, developed infrastructure and large markets.

Italians urge EU to retreat in banana dispute with the US

By James Blitz in Rome and Frances Williams in Geneva

Italy yesterday opened up a crack in the European Union's hitherto united front in its banana dispute with the US, by urging the EU to soften its stance in order to avoid a "counterproductive" trade war over the issue.

Lamberto Dini, foreign minister, called the EU banana import regime, which favours imports from Africa, the Caribbean and the Pacific, "a very strong distortion of trade". He said it should be amended to "reduce the level of protection given to countries associated with the European Union".

Mr Dini's comments are potentially embarrassing for Brussels, which insists that changes to the regime, made after a 1997 World Trade Organisation ruling against it, have brought it into line with global trade rules.

The US says the regime still does not comply with the ruling and is threatening sanctions on $520m of EU exports by March 3.

"To enter a confrontation with the US and see Italian and European products discriminated against, and hit by new import duties, would be counterproductive," Mr Dini said.

Italy's foreign ministry said Italy was concerned that its exports could be particularly badly hit if the sanctions went ahead.

Meanwhile in Geneva, the US was again prevented from seeking WTO authorisation for retaliation against the EU for its alleged failure to comply with WTO rulings on its banana import arrangements.

However, the two sides appeared to be edging towards a procedural compromise suggested by Renato Ruggiero, WTO director-general, that would buy more time for a negotiated settlement of the dispute. Though the proposal is acceptable to the US, the EU is still seeking "reassurance" about the sanctions timetable.

Yesterday's planned meeting of the WTO's dispute settlement body was suspended until tomorrow as member states argued over Washington's right to ask for sanctions approval before a WTO panel now under way has ruled on the legality or otherwise of the EU's amended banana import regime.

On Monday two small Caribbean banana producers, St Lucia and Dominica, blocked the agenda of the meeting that was due to consider the US request, a move which Washington claimed was inspired by Brussels.

The US argues that under WTO rules it must be given authorisation now to implement sanctions, though these could be delayed until March 3 if the EU insists on WTO arbitration of the amount and type of goods involved.

Under Mr Ruggiero's plan the EU would invoke its right to arbitration, thereby preventing US sanctions coming into force on Monday. Meanwhile, the two sides would hold consultations.

Sanctions threat starts to tell

By Kevin Brown, Industry Editor

Calls by Lamberto Dini, the Italian foreign minister, for a quick settlement of the banana dispute are the clearest sign yet that US threats to impose sanctions on a range of European goods are hitting home.

Detailed figures produced by officials acting for Sir Leon Brittan, the European Union trade commissioner, show that the sanctions would affect exports worth €492m ($570m) from the 13 EU countries targeted. The countries not targeted are Denmark and the Netherlands.

"This sanction list is absolutely arbitrary. It includes people who have absolutely no link with bananas whatever, except perhaps that they put one in their lunchbox," said a spokesman for Sir Leon.

The biggest impact would be on the UK, which exports €120m of targeted goods. Italy (€113m) would be next, well ahead of France (€96m), and Germany (€71m).

In round terms, the impact on the other nine countries is: Belgium €35m, Spain €22m, Portugal €12m, Greece €8m, Austria €5m, Sweden €4m, Ireland €3m, Finland €2m, and Luxembourg €13,000.

The worst hit business sector would be plastic goods – defined as non-adhesive plates, sheets, film, foil and strips of polymers of propylene – worth €82m a year to the EU, mainly from Germany and France.

However, more widespread damage may be inflicted on biscuit makers, who sell a total of €71m to the US. The biggest sales are from Belgium (€30m) and the UK (€13m), but all the target countries except Finland and Luxembourg export biscuits.

Cashmere sweater exports are worth €49m, almost entirely from the UK (€26m) and Italy (€23m). Handbag exports total €35m, of which €23m comes from France, €11m from Italy and €1m from Germany.

Other targeted sectors include €31m exports of lead-acid batteries, mainly from the UK (€20m), and Italy (€7m); greetings card sales of €26m, overwhelmingly from the UK (€22m); sales of bed linen worth €23m, mainly from Spain and Portugal (both €7m); and light fittings worth €22m, largely from Italy (€10m), Spain (€4m), and France and Germany (both €2m).

Smaller sectors include bath preparations (€21m), mainly from the UK (€11m) and France (€5m); candles (€20m) mainly from Italy (€6m), Germany and the UK (€4M each); folding cartons and boxes (€19m), mainly from Germany (€9m) and France (€4m); and pecorino cheese (€18m) from France (€7m), Italy (€6m), and Greece (€5m).

The other sectors facing sanctions are pork products, lithographs, wallets and felt paper.

NEWS DIGEST

TRADE SPAT

Hungary angered by Czech complaint to WTO

Hungary protested yesterday after the Czech Republic complained to the World Trade Organisation about Hungary's imposition of a quota on Czech steel imports last month. Hungary said it had imposed the 45,000 tonnes a year quota in response to Czech restrictions on Hungarian wheat. The two governments have 60 days to try to resolve the dispute before it goes to a WTO disputes panel. Both countries belong to the Central European Free Trade Area, which aims to remove trade barriers by 2001.
Robert Wright, Budapest

SOUTH AFRICAN POST OFFICE

Four in bidding for contract

Four international consortia are bidding for a contract to help restructure South Africa's loss-making post office, Jay Naidoo, minister of posts, telecommunications and broadcasting, announced yesterday. The four groups are led by Canada Post, Deutsche Post, La Poste of France and a partnership of New Zealand Post and the UK's Royal Mail. South African companies, including black-controlled "empowerment" groups, are represented in most of the consortia. The invitation to foreign companies to help reform the post office is the latest move by the South African government to persuade international partners either to buy stakes in state-owned corporations or to help state companies become more profitable through "strategic management partnerships". South Africa's postal system has been plagued by theft and inefficiency in recent years, and millions of black citizens do not have formal addresses. **Victor Mallet, Johannesburg**

WTO LEADERSHIP

EU indecision delays choice

WTO members yesterday called for more intensive efforts to reach consensus on a new director-general to succeed Mr Renato Ruggiero, who retires at the end of April. Contributing to the delay in coming to a decision is the continued failure of the 15 EU member states to agree on a single candidate. Among the 100 or so WTO members expressing a view, Supachai Panitchpakdi of Thailand is the current front-runner, followed by Morocco's Hassan Abuyoub. However, Mike Moore of New Zealand, Washington's favoured candidate, has the most second choices. Canada's Roy MacLaren is lagging in fourth place.
Frances Williams, Geneva

Republicans cut back list of witnesses

By Mark Suzman in Washington

Republican prosecutors yesterday sharply scaled back the number of witnesses they hoped to call for President Bill Clinton's impeachment trial.

The move was an effort to assuage Senate concerns that new testimony would significantly extend proceedings in the face of growing public disapproval.

The 13 trial managers from the House of Representatives also asked senators to "request" Mr Clinton's appearance to answer questions directly about the charges that he committed perjury and obstructed justice in covering up his affair with Monica Lewinsky, the former White House worker.

With both sides jockeying for position before two important votes, expected today, on whether to dismiss the case and whether to call witnesses, the managers told senators they wanted to subpoena Ms Lewinsky, Vernon Jordan, a close friend of Mr Clinton, and Sidney Blumenthal, a White House aide.

The Republican majority in the Senate is confident it has enough votes to defeat the Democratic motion to halt the trial, but the second vote appears evenly balanced. Only six Republican defectors would be needed to prevent witnesses and several members have already indicated they are uneasy about the prospect.

Bill McCollum, one of the managers, said he still believed the Senate needed to hear from 10-12 witnesses to assess the charges properly, but that the prosecution had agreed to exclude testimony from people such as Betty Currie, the president's personal secretary, to try to meet senators' concerns.

Mr McCollum said prosecutors would not pose any explicit sexual questions to Ms Lewinsky if she was called as a witness, but urged senators to make sure they heard from her face-to-face in order to judge her credibility.

Richard Shelby, a conservative Republican senator from Alabama, said he was still not convinced testimony would add anything. "I say let's dispense with the witnesses and go on and vote the issue up or down after we have arguments," he said in a television interview.

However, Tom Daschle, Senate minority leader, said he believed it was now likely Republicans would agree to the request for witnesses and warned it could drag out the trial. "It seems as if the lines are drawn," he said.

■ A divided federal appeals court yesterday reinstated tax evasion charges against Webster Hubbell, a friend of President Clinton, who appeared in Whitewater investigations, and against Mr Hubbell's wife and two friends, AP adds.

Menem forces dollar plan to top of political agenda in Argentina

The opposition is wary but officials see benefits in proposal to abolish peso in favour of US currency, writes Ken Warn

Ask nicely enough and the grumpy newspaper vendors in downtown Buenos Aires will swap a $100 bill for 100 Argentine pesos, even though dollars are not – as yet – the country's legal tender. The vendors never liked the look of the Brazilian Real, devalued earlier this month after weeks of suspense.

Dollars are already widely accepted in shops and restaurants throughout Argentina. And, since the Real's fall, President Carlos Menem has thrown his weight behind a proposal to abolish the peso in favour of the US currency.

In response, former president Raúl Alfonsín grumbled that adopting the dollar would make Argentina "an appendage" of the US, like Puerto Rico.

But behind its rejection of "dollarisation", the opposition is watching events with mounting alarm. Presidential elections will be held in October and the political debate is shifting away from its favoured campaign themes.

Mr Menem has pushed the debate into an area of visceral importance for Argentines – how to ring-fence the economy from external shocks, such as the chaos that has descended on Brazil in the wake of devaluation. Memories of the hyper-inflation of the 1980s and early 1990s run deep.

"The fact that this plan throws the opposition on the defensive is doubtless just one of its attractions for Menem," said one official.

Another attraction is that the plan reminds nervous international investors that Argentina has a weapon in its policy armoury denied to most other emerging economies. With or without a negotiated accord with the US, Argentina could dollarise in the face of a speculative attack, officials said.

But beyond these short-term considerations, senior central bank and Economy Ministry officials are increasingly persuaded that dollarising under a "treaty of monetary association" with the US would provide real long-term benefits for the economy.

Convertibility, the currency board system that has pegged the peso at par to the dollar since 1991, has worked well, but not quite well enough, they say – investors still demand a premium for the perceived risk of devaluation.

Argentina, which must back every peso in circulation with a dollar in its central bank reserves, has renounced an independent monetary policy and handed the setting of interest rates over to the markets.

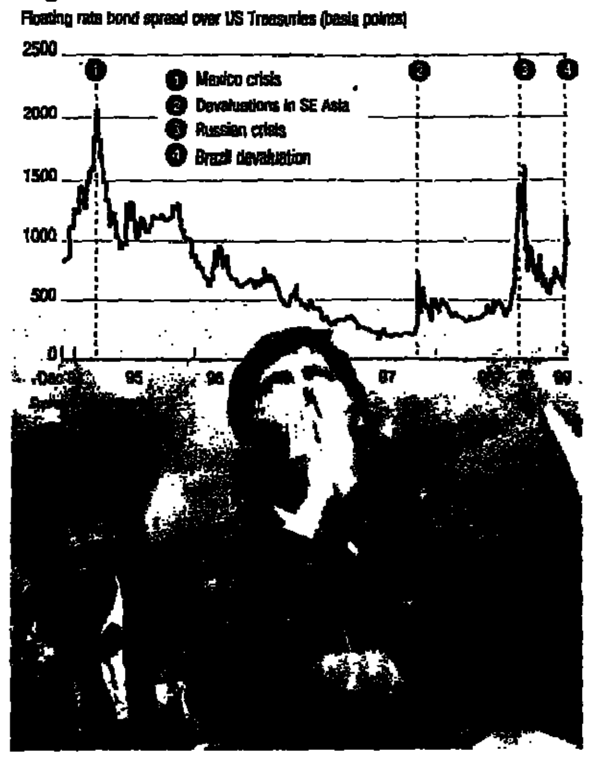
The markets have not exactly been kind in return. Every time a crisis breaks in an emerging economy, Argentine interest rates spike higher. It took three months for Argentina to differentiate itself from other emerging market borrowers in the wake of last year's Russian debt crisis and regain access to the capital markets. Then came Brazil.

The country, helped by the restraints imposed by convertibility, easily meets the European Union's Maastricht convergence criteria in terms of its fiscal deficit, inflation and public debt, officials point out.

"But it's like we've gone through the discipline of convergence without the pay-off in terms of interest rates," said one official.

"In 50 years perhaps the credibility would be there. But why wait that long, suffering high spreads and volatility in the meantime?" said another.

Negotiation of a monetary treaty with the US is seen as a more stable option than unilateral dollarisation. It could take two to three years, according to central bank president Pedro Pou, and would involve US agreement to undertake a "lender of last resort" function for Argentina.



But any plan's future depends on the politicians. Mr Menem, barred from seeking a third term, must leave office in December. Unless the incoming government, of whatever party, can be persuaded to back it, there is nothing central bank technocrats can do to push the proposal forward.

Brazil central banker rejects capital controls

By Geoff Dyer in São Paulo

The introduction of strict capital controls would have "tragic consequences" for Brazil and result in a moratorium on its external debt, Francisco Lopes, the new president of the country's central bank, said yesterday.

He said President Fernando Henrique Cardoso had ruled out the imposition of heavy controls on the foreign exchange market, such as a system of rationing dollars by the central bank.

His comments brought some relief for the Real, which by mid-afternoon was trading at R$1.86 to the dollar, after having fallen to R$1.96. On Monday night the currency closed at R$1.79.

However, share prices on the São Paulo stock exchange were 8.2 per cent higher by mid-afternoon. The currency has devalued 35 per cent since the government was forced to abandon its peg to the dollar on January 13.

The government's seeming inability to control the devaluation has prompted a debate within Brazil over the virtues of Malaysia-style capital controls.

On Sunday the Folha de São Paulo, one of the country's leading newspapers, ran a front-page editorial calling for the rationing of dollars, a policy known as centralisation, to stabilise the currency.

"Centralisation would inevitably lead Brazil into a moratorium," said Mr Lopes. "We spent 10 years paying the price for the moratorium in the early '80s, a time when we were considered a second-class country."

The economy would lose access to external credit and direct foreign investment, expected to be $25bn this year, he added.

Mr Lopes, who was speaking at a confirmation hearing in the Senate, also ruled out a currency board and said Argentina should not dollarise its economy. "Argentina would become a type of Panama. The currency is one of the bases of any society," he said.

Interest rates could be raised again to stop further currency falls.

JUDGE JACKSON SOMNOLENT EXTERIOR HIDES FINE LEGAL MIND

Slumbering bear spends winter with Microsoft

By Richard Wolffe in Washington

Microsoft trial

He may be considered one of Washington's finest legal minds – a judge who presided over the cocaine trial of former mayor Marion Barry and now holds the future of the world's most valuable company in his hands.

But Judge Thomas Jackson sits through the Microsoft monopoly trial as if he sorely wishes he were somewhere else. After three months in a neon-lit, windowless courtroom, Judge Jackson lolls in his chair like a slumbering bear.

As a Microsoft executive clashed repeatedly with the US government's lawyer yesterday, Judge Jackson rubbed his eyes and flashed several glances at the courtroom clock. The arguments ranged inconclusively over the definition of "market share" and "internet browser", as the judge appeared to be contemplating his mid-morning recess.

However, the somnolent exterior can be deceptive. Microsoft's leading lawyer leapt to his feet yesterday to object to repeated questions over the company's decision to stop using the word "browser" – the internet software that is at the heart of the antitrust trial. But Judge Jackson slapped down his objection with the firmness of someone who could recall the entire morning's proceedings from memory.

One former colleague said Judge Jackson was liked by Washington's trial lawyers precisely because of his easy-going attitude. "He has a huge zest for life," he said. "The lawyers who appear in front of him love him because he has not forgotten what it was like to be in the well of the courtroom.

"There are many judges who just sense that they know the parties' case better than the lawyers and get in the way of a trial. Tom is very good at staying out of the way of lawyers, whether they are hanging themselves or setting out a good case."

When the portly 61-year-old judge intervenes in the proceedings, it is invariably with a joke. Early in the trial he kicked off the day's proceedings with a politically incorrect joke about how men consider computers to be like women – as soon as you commit yourself to one, you find yourself spending half your pay on accessories.

Judge Jackson is above all a long-standing feature of the Washington legal establishment. The son of a Washington lawyer, he joined the family firm – Jackson & Campbell – after a career in the Navy and a law degree from Harvard in 1964.

He was an attorney in 1972 for Richard Nixon's Committee to Re-elect the President (Creep), which supported the break-in of the Democratic National Headquarters in the Watergate.

His status as a conservative Washington insider appears to have little influence on his approach to Microsoft. In place of a Reaganesque *laissez-faire* approach to antitrust law, Judge Jackson has repeatedly ruled against the world's largest software company over big and small legal issues alike.

He apparently cares little for what others think of his judgments, especially the media.

In a recent article in the Federal Lawyer magazine, Judge Jackson said: "I have a visceral sense that the relationship between a potentially newsworthy case and the press is roughly comparable to the relationship between a healthy organism and an infectious disease.

"Lessons I have learned the hard way have taught me that if I regard the case in just that way, and activate my immune system early on, both I and the case are less likely to suffer adverse consequences."

On the web today

● Colombia appeal for quake supplies ● Canada finds downside to charter of rights ● Nasa plans seach for alien life forms ● Mexican interest rates may be raised

http://www.ft.com/americas

CONTRACTS & TENDERS

Agenzia romana per la preparazione del Giubileo S.p.A. **(Roman Agency for the Preparation of the Jubilee Co.) continues to receive numerous offers from businesses for the sponsorization of individual services or works intended for the great Jubilee of the year 2000, an occasion when some 24 million visitors are expected to come to Rome. In this context, the Agency deems it useful for the purposes of proper information to make it known among interested parties that offers for the sponsorization of the promotion of businesses or other ends may be inserted in the context of a series of Agency activities, as also in both physical and IT or telematic spaces connected with these activities. Very briefly, the spaces in question, which are of various sizes and available for various periods of time, are constituted by the fences around construction sites and the scaffolding surrounding buildings that are undergoing works of public utility with a view to the Jubilee, as also by IT services and systems widely viewed both in Italy and abroad, including the Internet sites and home pages of the Agency and the co-ordinated reservation system.**

Interested parties may either request [illegible] proposals by contacting:

Agenzia [illegible] per la preparazione del [illegible]

Piazza [illegible], 12

[illegible] Rome

Telephone: (003906) [illegible]

Telefax: (003906) [illegible]

Oilfield royalty rules may be eased

By Kevin Brown, Industry Editor

The government is considering simplifying the royalty remission regime for North Sea oilfields to help the beleaguered industry cope with a collapse in oil prices which has jeopardised fresh investment.

John Battle, the energy minister, will meet oil executives today to discuss a six-point action plan designed to cut the industry's cost base and help it cope with price cuts of more than 50 per cent in the past 15 months. Benchmark Brent crude was trading at about $10.70 a barrel yesterday – above its 12 year low of $9.64 in December, but well below the $21 for which it was selling in September 1997, when the government was considering increasing oil taxes.

Royalties, which have produced about £550m annually for the government in recent years, are a levy on production charged on fields that were operating before 1982. This includes many early fields which were nearing the end of their productive lives before profitability was damaged by low prices.

Officials say ministers are considering making it easier for companies to apply for either partial or total exemption from royalty payments if that would keep in production fields that would otherwise close.

"Nothing is ruled in and nothing is ruled out," Mr Battle said. "It is not ruled off the agenda. It is not a no-go area. We are prepared to look at fiscal questions."

Mr Battle, who chairs a government and industry task force on oil and gas production, said ministers were determined to ensure the industry survives. "We are not going to sit back while there is a low price and watch the industry decline," he said.

The task force will also discuss ways of making the regulation and licensing regime work better, including greater co-ordination between field development plans, safety regulations and environmental assessments.

The other points in the action plan cover ways of improving the competitiveness of the supply chain and simplifying contractual issues; better and quicker use of new technology and other innovations; improving skills and training; and sustainable development.

The task force, set up in November by Peter Mandelson, the former trade and industry secretary, is expected to report within six months. However, ministers say some of the group's conclusions will be implemented more quickly.

Few in government or the industry expect the oil price to recover much in the short term. "What people are doing now is adjusting for and planning for an oil price that is unlikely to rise significantly in the near future," said Mr Battle.

The oil and gas industry employs about 30,000 people offshore, and has created about 300,000 onshore jobs over the past 30 years. Total government revenue from oil and gas fields, which peaked at £12.1m in 1984-85, amounted to £3.5m last year.

Corrosive influence of power begins to tarnish image of Blair administration

PM's high rating in polls is not shared by his government, says **Deborah Hargreaves**

Today's Labour government led by Tony Blair bears little resemblance to the one swept from power by Margaret Thatcher and her Conservative party almost 20 years ago.

Britain was then emerging from the notorious "winter of discontent", a series of public-sector strikes that had almost brought Britain to a standstill.

The Conservatives ruled for the next 18 years, and for most of the 1980s it was hard to imagine how Labour would regain power. But by the time Labour was returned with a landslide victory two years ago, the Conservative administration was riven by factional infighting, corruption and shady financial deals.

Mr Blair set as his mission a clean-up of British politics and said he would govern for the "whole nation". He sounded surprisingly like a Labour version of Mrs Thatcher, and the two are said to get on well.

His tight grip on the presentation of his party's policy certainly resembled that of the "iron lady".

The economic climate inherited by Mr Blair could hardly be more different from that of 1979. Far from being in the grip of strikes and union power, Britain has seen its unions emasculated by successive Conservative legislation and Mr Blair has reduced their long-standing influence within the Labour party.

But Mrs Thatcher's Achilles heel – relations with the European Union – has come to haunt Mr Blair in the shape of a public row over tax harmonisation between countries and UK indecision over when it will adopt the euro.

Opposition party taunts about 'Tony's cronies' have begun to inflict damage on their targets

Mr Blair's halo of reformist zeal has also been tarnished in recent months as his government has fallen victim to some of the corrosive influences of power.

First, a prominent minister resigned after what he described as "a lapse of judgment": he met strangers in a London park and was later robbed, but denied a sexual motive for the late-night encounter. Some months later, a secret loan between two top-level ministers was revealed, leading to accusations of cronyism between members of the cabinet.

The ministers involved resigned. But the Conservative slogan "Tony's cronies" stuck, as the opposition party accused Mr Blair of planning to fill a reformed upper chamber of parliament with cronies.

Further embarrassment came with the publication of a book by the former wife of Robin Cook, the foreign secretary, which paints a picture of a womanising, heavy drinker with a strong antipathy towards some of his most senior government colleagues.

Rumours of deep divisions between forward-looking ministers and old-style Labourites have been more difficult to throw off. Persistent claims of a rift between Gordon Brown, chancellor of the exchequer, and Mr Blair have forced both to come up with speeches in praise of the other.

Labour is not in danger – its majority in the House of Commons is vast. But the government has been given a taste of the sleaze that proved so disastrous for the Conservatives in the mid-1990s and reinforced public cynicism about politicians.

Mr Blair has tried to divert reports away from the vagaries of his own ministers towards the government's key policy areas.

But the bad press has been exacerbated by a crisis in the state health service, which has been overburdened by a rush of influenza cases. Scare stories about hospitals running out of beds and intensive care units strained to breaking point do not make easy reading for ministers who championed the service and pledged to reduce waiting lists for operations.

In addition, last week's decision by Paddy Ashdown, leader of Britain's third party, the Liberal Democrats, to stand down this year could endanger Mr Blair's cherished "project" of a possible partnership with Mr Ashdown's pro-European party. The "project" is extremely unpopular among some members of Mr Blair's own government.

Mr Blair himself has managed to escape much personal criticism and his approval rating in opinion polls is still high. But he needs to direct the public's attention back to some of Labour's key policies and successes if he is to dispel a sense of drift.

Labour MP denies four charges

Mohammed Sarwar (above), a Labour MP and the UK's first Moslem MP, yesterday denied four charges when his trial opened in Edinburgh, Scotland. He was accused of attempting to pervert the course of justice, understating election expenses, and of an alleged fraudulent scheme to have four names added to the voting register. One charge alleges that he attempted to pervert the course of justice by inducing a man to make false statements about two other candidates in return for a payment of £5,000 ($8,250).

With a co-accused, Mumtaz Hussain, Mr Sarwar further denies attempting to pervert the course of justice by pretending that the payment was a loan.

Hopes for economy boosted by survey

By Richard Adams and Christopher Adams in London

A sharp revival of export and business confidence among UK manufacturers was announced yesterday, raising hopes that a soft landing for the economy may be in prospect.

The latest issue of the Confederation of British Industry's quarterly industrial trends survey found that many manufacturers reported that domestic demand remains weak, but that the pace of decline was slowing from the rapid falls seen last year.

But the employers' organisation was quick to warn that the figures still showed a tight squeeze on company profits and prices. It said it was "too soon to say" whether manufacturing had reached a turning point.

"With output expected to continue falling, jobs are likely to be cut at a faster rate over the next few months," said Kate Barker, the CBI's chief economic adviser. "A half-point cut in interest rates is needed in February to prevent an unnecessarily prolonged and severe slow-down."

The CBI's closely-watched business optimism poll, of nearly 900 manufacturers, improved from a net percentage balance of minus 58 in the previous October survey, to a balance of minus 40. Export optimism recovered more firmly, from minus 41 in October to minus 18.

The CBI attributed much of the improvement to the steady weakening in the strength of the pound during the last three months, and the series of decisions by the Bank of England to cut interest rates in each of the last four months.

● Eddie George, governor of the Bank of England, the UK central bank, yesterday welcomed the recent slide in sterling, saying that the pound had been artificially high. But he warned a committee of the House of Lords, the unelected upper chamber of parliament, that the slow-down in the world economy would probably continue to exert pressure on exporters.

Beatings put strain on accord over N Ireland

By David Wighton, Political Correspondent

The bipartisan approach in the House of Commons to the Northern Ireland peace process will be strained to breaking point today with a renewed call from the opposition Conservative party for the government to postpone further releases of paramilitary prisoners. Traditionally the Conservative and Labour parties have supported each other's efforts to secure peace in the region.

Andrew Mackay, Conservative Northern Ireland spokesman, will declare it "immoral" for additional releases to take place while paramilitary punishment beatings continue.

Mr Mackay will call on MPs in the governing Labour party to back a motion by Frank Field, a respected former minister, urging the government to slow the releases. The motion says the government should use the programme as a "political sanction against a ... regime of increasingly brutal intimidation". Mr Field's move underlines increasing concern on the Labour back benches at the beatings which the Conservatives claim are a breach of the 1998 peace agreement.

Mo Mowlam, chief Northern Ireland minister in the UK government, said yesterday the paramilitary ceasefires were holding and the releases should continue. "If you read the agreement, look at the criteria by which I make my judgment and the evidence I receive – my view is that the ceasefire is not breaking down".

However, ministers are known to be worried about the impact of the beatings on the peace process. The Conservatives say their private polls show the government's approach to prisoner release is the most unpopular of its policies.

Conservative officials insist the party remains committed to the bipartisan approach to Northern Ireland but that does not mean it gives the government "a blank cheque".

● Michelin, the French tyre maker will expand its Ballymena plant with a £12m ($20m) investment to relocate truck tyre production for North America in Northern Ireland, writes John Murray Brown in Dublin.

The announcement brings Michelin's investment in Northern Ireland over the past 10 years to £90m. It employs 1,350 people, making bus and truck tyres and producing rubber compounds for use in Ballymena and other Michelin plants.

NEWS DIGEST

INWARD INVESTMENT

Chinese companies study potential factory ventures

Three Chinese companies are considering opening in north-east England the UK's first manufacturing investments from mainland China. The disclosure follows a visit by members of the China Administration Association of Electronic Enterprises. The names of the companies were not disclosed.

The Chinese delegation, who spent 10 days in the UK, discussed a joint manufacturing proposal with a medium-sized electronics company, a direct investment or joint venture manufacturing project with a medium to large-sized consumer company and a collaborative marketing and research and development telecoms investment.

The UK now has 58 inward investments from mainland China. So far, they have focused on sales, marketing, distribution and banking rather than manufacturing – a similar pattern to that followed by Japan in its early investment experience in Europe. The Invest in Britain Bureau said it was not aware of any mainland Chinese companies manufacturing in Britain. **Chris Tighe, Newcastle upon Tyne**

INTERNET ACCESS

Toys R Us to offer free service

Toys R Us, the US-based toy and games group, is to follow the example of Dixons and Tandy, the UK electrical retailers, and offer its UK customers free access to the internet. Toys R Us is joining Cable and Wireless Communications to provide the telecommunications network for the new service. ICL, a UK computer services offshoot of Fujitsu, is providing the hardware, software and web hosting facilities.

Customers will be able to obtain the new service via compact discs available from Toys R Us stores. This latest move in the UK internet service provider market is likely to increase pressure on those companies charging for access. In particular, the smaller ISPs, which typically charge £10 ($16.50) a month for their services, are likely to be under pressure. **Christopher Price, London**

ANTI-RABIES LAWS

Reform may come before 2000

Britain's tough anti-rabies laws could be scrapped by the end of the year under government plans to reform the quarantine system. The British Isles are free of the disease, which occurs in much of north-west Europe, and UK law requires all domestic animals entering the country to be quarantined for six months at the owners' expense even if the animals have been vaccinated.

Nick Brown, agriculture minister, has told the Royal Society for the Prevention of Cruelty to Animals that he wants early introduction of "pet passports" for animals immunised against rabies. He is considering changing the law using "secondary legislation", which is not dependent on the provision of a scarce slot in the packed legislative timetable of the House of Commons. About 5,000 dogs and 3,000 cats spend six months in quarantine in the UK every year. **George Parker, London**

EU DEVELOPMENT AID

Call to help poorest countries

The UK yesterday called on the European Union to rebalance its development aid budget to provide poorest countries with a greater share. George Foulkes, junior development minister, told members of the European parliament and non-governmental organisations that the proportion of EU development aid going to the poorest countries had fallen from more than 70 per cent 10 years ago to about 50 per cent.

The balance needed to be shifted if the EU was to help bring about its aim of contributing, by 2015, to a 50 per cent cut in the proportion of the world's population living in extreme poverty. Mr Foulkes' intervention is part of an effort by the UK government to reform EU aid. The government's Department for International Development recently said the EU's financial and procurement procedures acted as a brake on flexible and efficient implementation. Mr Foulkes yesterday said more than 70 per cent of the poorest people lived in Asia but in 1997 the EU had spent only 15 per cent of its $6.7bn development aid there. **Michael Smith, Brussels**

BREWER'S APPEAL

Court to rule on lower duty

The Court of Appeal in London yesterday reserved judgment on whether to allow brewer Shepherd Neame to take its battle for lower UK beer duty rates to the European Court of Justice in Luxembourg. Three judges said the ruling would be given later. An advocate for the company, based in south-east England, told the judges that the aim was to "prevent British beer succumbing to its Continental rivals" and stem the tide of cheap imports from France and Belgium. He accused the UK government of acting in breach of European Union law by imposing two successive increases in excise duty on domestic beer.

STATE PAYMENT DELAYS

Firm 'delivered to contract'

Andersen Consulting is to resist paying any further compensation to the UK government for the delays that have plagued the introduction of the new National Insurance recording system. The firm, which developed the system free of charge to the government, believes it has delivered to its contract and is continuing to do so, even though hundreds of thousands of payments to pensioners and other claimants are having to be made on an estimated basis. **Nicholas Timmins, London**

Output at Land Rover to be curbed

By Juliette Jowit in Birmingham

The Rover offshoot of BMW is to suspend production of two Land Rover models because of a drop in demand.

Work will be suspended on the Defender range for two weeks and on the Range Rover for one week as part of a company wide cut of "several thousand" vehicles.

The company said the cuts would "not be significant" and it hoped they would be made up during the second half of the year, when demand traditionally picks up. "It [the suspension] is to smooth production levels in the early part of the year to parallel market demand and in the latter part of the year we expect demand to increase," the company said.

The move is nonetheless a setback for Rover because Land Rover sales are needed to compensate for falling car sales. Falling demand for Land Rover would deepen problems for the loss-making group, which last year imposed 2,500 redundancies. Production volumes for the new Rover 75 car have also been halved because of lower-than-expected demand.

Figures for 1998 show that although total Land Rover sales rose 20 per cent to 151,500, sales of the traditional Defender, Discovery and Range Rover models fell by up to 25 per cent. Defender sales were also hit last year after the range had to be withdrawn from the US because the vehicles were not fitted with airbags.

The good news for Land Rover was the Freelander, which was launched at the end of 1997. It has sold 46,500, contributing most of the total rise in sales. Freelander production is also to stop for three full days and 2¼ days over the next few months, but volumes will be maintained because of increased efficiency.

● Lex Service group's latest survey of nearly 1,300 motorists concludes car owners are strongly opposed to exclusively coercive measures such as continuing steep fuel price rises, proposed taxes on workplace parking spaces or spaces at supermarkets, or road tolls unaccompanied by better rail services. Motorists would be prepared to support some measures to curb car use, provided they are backed by clear improvements in public transport. The study is the most comprehensive annual survey of UK motorists' attitudes.

Ford cuts, Page 15

COMPUTER LINKS LAUNCH OF JINI

Magical link-up for peripherals

Answer to a computer user's prayer or a bridge too far? Louise Kehoe on Sun Microsystems' extension to its Network Computer approach

To anyone who has ever struggled to get a new printer, or perhaps a scanner, to work with their personal computer, Jini sounds indeed like the magic of a genie. The new technology from Sun Microsystems promises to make connecting computer equipment as easy as plugging in a toaster.

Computing is just too complicated, Sun maintains, especially when it comes to linking computers and peripherals on a network. The computer manufacturer, software developer and outspoken Microsoft critic has set out to create an approach to computer networking that hides all the complexity and makes networks far more flexible.

But it may be too soon to suspend disbelief. Before Sun can deliver on its promises, the company must overcome its biggest rivals in the PC industry.

Jini is an extension of Sun's long-running campaign to displace today's PC, which Scott McNealy, Sun chief executive, likes to describe as: "Something that you need a teenager to work."

A cheerleader for the "network computer" – a simple terminal designed to link users to the internet – Sun misses no opportunity to challenge Microsoft.

With Java, its lingua franca for computing that enables programs to run on any type of computer, no matter which operating system or hardware is used, Sun has waged a three-year battle to persuade the computer industry that it is moving into a "post-PC era" in which Windows software will become irrelevant.

Now Sun is applying a similar "network-centric" approach to linking peripherals – whether they be printers, digital cameras, hand-held computers or even household appliances. Jini, launched officially this week, automates the process of creating a network of computing devices by adding "intelligence".

A Jini-enabled digital camera, for example, would incorporate a microprocessor and a small Java program that identifies the device and its capabilities. If the camera were plugged into a computer, or a printer, it would automatically transmit a message to the other devices on the network, providing instructions on how it could be used.

A central "look-up service" – typically stored on a PC or a network server – would list all the devices linked to a network and make their services available to authorised users. The look-up service would be, in effect, a switchboard making connections between Jini-enabled devices.

Jini turns today's computer network architectures on their heads, Sun claims. Rather than giving desktop computers the task of finding and identifying other devices on a network, Jini spreads the responsibility. Every device on a network would be in charge of its own services.

With Jini, networks could be created, disassembled and reconfigured at will, Sun says. A group of users might plug their machines together for the duration of a project and then rebuild the network when the job was done – all without the assistance of technicians.

> 'This turns "plug in and pray" into "plug in and it works" '

In the home, computers, televisions, kitchen appliances and telephones might be linked, via the internet, to create a virtual "home network". Or, as Sun suggests, sales executives from a group of companies co-operating on a contract bid might network the equipment they carry with them on a business trip – a laptop computer, a disk drive, Palm Pilot hand-held devices – and link them all to the television screen in a hotel room to create a network.

"This turns 'plug in and pray' into 'plug in and it works'," says Ed Zander, Sun's chief operating officer, in a thinly veiled dig at Microsoft's Plug and Play PC technology, which is supposed to enable PC users to add new peripherals with ease.

However, the success of Jini will depend largely on Sun's ability to persuade manufacturers of computing devices and internet services, to adopt the new technology. Only if a wide variety of computing devices are Jini-enabled will the technology become a useful standard.

At its Jini launch event in San Francisco on Monday, Sun claimed to have won the support of 37 companies, ranging from Kodak to Xerox, that were "currently integrating the technology into next-generation devices for home and business".

Consumer electronics companies, in particular, were enthusiastic about the technology.

Bosch-Siemens pledged that Jini would become "an integral part of our global efforts to develop advanced products and services". Sony, Philips and others said their scheme for home networking would be "bridged to Jini". Sharp saw potential for it in "mobile devices" and Samsung declared Jini "a solution that will change the future of home networks".

Cisco, the leader in networking equipment, also recognised the potential of Jini in home networks and 3Com was enthusiastic about using it to link its popular Palm Pilot hand-held computers to internet information services.

Yet the first market opportunity for Jini is probably in the office, rather than the home, Sun acknowledged. Small businesses that cannot afford the services of IT professionals to manage their networks, and bigger companies that want to reduce IT costs, will be the first to adopt Jini-enabled products, said Mike Clary, Jini general manager at Sun. In home offices, Jini would also be welcomed with open arms, he predicted.

For these computer users the real challenge is hooking up new printers, scanners, modems and other standard PC peripherals and then persuading several PCs to share the devices.

Yet few of the leading manufacturers of these products have committed themselves to adopting Jini. Hewlett-Packard, the leading supplier of PC printers, for example, expressed only lukewarm support for the technology.

Although it is the first such technology to make a big splash, Jini has lots of competition. Microsoft recently unveiled its scheme for linking computing devices – "Universal Plug and Play" – offering similar advantages to Jini while maintaining the ubiquitous Windows software standard. Lucent, IBM and Hewlett-Packard also have their own ideas for new ways to make it easier to hook up computing devices on a network.

In this competitive arena, Sun's Jini has one serious drawback. Few computer users are likely to throw out the products they use in favour of new Jini-enabled equipment. Sun's scheme must therefore incorporate ways to link "legacy" equipment to new Jini-enabled devices. This will be achieved, according to Sun, by switching the tasks of identifying and managing peripherals back to the desktop or network server.

In the real world, it seems that even Jini's magic cannot transform the complexity of "legacy" PC networks overnight. Rather, the new Sun technology will have to prove itself in a looming standards battle that spells yet more complexity for computer users.

INFORMATION TECHNOLOGY BRIEFS

A speedier search in palm of your hand

Navigation through cyberspace with small-screen devices such as palmtop computers can be frustrating. With one-fifth of the resolution of a typical PC monitor, in terms of the number of pixels, handheld browsers can display only a fraction of the average web page, *writes Edwin Colyer.*

This is particularly frustrating for small-screen device users, who tend to be looking for a specific piece of information, rather than idly "surfing".

Middlesex University team, led by Matthew Jones, is working with Reuters to develop software tools to overcome this problem. "We want to develop a system that will avoid the site designer or the user having to do a lot of work themselves to make life easier," says Mr Jones.

The group has developed a program that creates an outline of a site's content and displays it in text form. "It is a bit like the outliner for a Word document" says Mr Jones, "except you end up with an outline of an entire site, not just a single page. Our software accesses a site, then searches it to produce a skeleton structure."

The tool exploits a feature of HTML, the language used to make most web pages. The HTML code contains labels and pointers known as tags. These divide up pages and mark the headings, tables, links and picture captions. Mr Jones's software recognises these tags and breaks down pages into subsections. Small-screen users will be able to choose to access only relevant information.
m.jones@mdx.ac.uk

Meetings on the mini-record

Panasonic's new compact and lightweight tapeless digital recorders as small as a credit card but can record up to 60 minutes of business meetings or voice memos using a built-in flash dynamic random access memory (D-Ram) chip.

The RR-DR60 IC Memory Recorder uses Panasonic's Code Excited Liner Predictive data compression and decompression technology and can store up to 99 files. Each file is automatically given a time stamp including the date, time and duration of the recording and providing instant access without the need for fast forward or rewinding. Files can be erased individually or all at once.

A large liquid crystal display screen provides status indicators including recording dates, time and battery power remaining. The machine also warns when the *remaining* recording time reaches 10 minutes; pressing the "mode" key while recording shows the remaining recording time.

Other features include voice-activated start, an intro-scan that plays the first few seconds of each file, and slow and fast playback.
www.panasonic.co.uk

Disc chip packs all functions

The most important challenge for semiconductor companies is to integrate more and more functions on to smaller and smaller slivers of silicon in order to improve performance, increase reliability and reduce costs.

For example, DVD (Digital Versatile Disc) players require lots of discrete components to perform so-called "back-end" functions such as decoding, data stream processing and signal encoding as well as one or more central processing units to control all these activities. Now National Semiconductor's Mediamatics unit has managed to pack all the back-end functions of a DVD player, including host processing, on to one chip.

Mediamatics' DVD-on-a-chip, dubbed Pantera-DVD, includes all the hardware and software needed to control consumer DVD drives, which are increasingly replacing CD-Rom drives in PCs and are capable of storing full-length feature films or huge software programs.

The first consumer DVD players designed to use the chip are expected to be on sale within months.
www.national.com

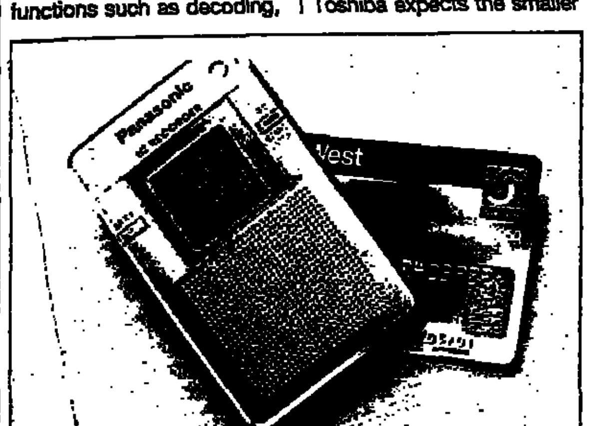
Memory scaled down to size

Toshiba, International Business Machines and Siemens, three leading semiconductor groups, have developed the world's smallest memory chip. The three companies used line widths measuring just 0.175 microns to produce a chip 40 per cent smaller than the previous generation of D-Ram devices.

Toshiba plans to start mass producing the new D-ram chip in Japan this year and then transfer the technology to its joint venture with IBM in the US. Production volumes have not yet been decided, but the Japanese group has the capacity to produce 5m 64Mb D-Ram chips a month. Toshiba expects the smaller D-Ram size to enable it to reduce costs.

Meanwhile, Toshiba and Fujitsu have said they will jointly develop and launch the next generation of 1-gigabit D-Ram chips early in 2002.

The two companies will assemble a 100 -strong team of researchers at Toshiba's development centre to work on the project, which uses 0.13-micron process technology.
www.toshiba.co.jp



Sizeable advantage: Panasonic's RR-DR60 IC Memory Recorder

Site security made easier

Companies engaged in electronic commerce or with sensitive information to protect demand the best security, but also require ease of use.

Hewlett-Packard, a leader in internet security, has launched two software products, Praesidium DomainGuard and DomainGuard Rules, which aim to make it easy for organisations to create and manage secure web sites within which customers, business partners and employees can perform transactions and share sensitive information.

DomainGuard "snaps" into existing web server software to deliver centralised, role-based protection for web "objects" such as applications, web pages and forms and for transactions. Yet it is simple enough to enable line-of-business managers to administer security policy.

DomainGuard Rules adds transaction authorisation rules. This, for example, enables an administrator looking after a web-based supply chain software application to limit the ability of partners to check inventory and orders for their own products and mutual customers only. It intercepts web forms containing the product number and customer ID and checks the query is for the authenticated partner's product and an acceptable customer.
www.hp.com

Paul Taylor

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SALEROOM

Battle of the Old Masters

Sotheby's and Christie's are vying for pole position in this area, writes **Antony Thorncroft**

London's hottest ticket may be for the Monet exhibition at the Royal Academy; in New York Jackson Pollock at MOMA might be the talk of the town, but for the cognoscenti the big money in art is currently being spent on that once overlooked genre, Old Masters.

Old Master paintings have become all the rage in recent years. This may be partly because they suddenly seem very cheap compared with Impressionists – a painting by Velazquez, regarded by many as the greatest artist ever, might go at auction for less than a work by Magritte, the trendy Belgian surrealist.

All the omens are good for these auctions, with dealers, museum curators and private collectors from all over the world picking over 500 top quality works

But also the sheer quality of the art is recognised by an increasingly sophisticated group of buyers. They might start with the easy stuff – Venetian views by Canaletto; Dutch still lifes by de Heem – but gradually their taste matures and they are chasing the Italian baroque and the French classical.

There are even new buyers for religious paintings, which a few years ago were considered almost unsaleable: an El Greco on offer at Christie's on Friday, a sombre painting of St Francis at meditation, has attracted considerable interest.

Last year Sotheby's set a record for an Old Master auction at its annual January sale in New York, bringing in \$53.2m (£32.5m). It is not expecting to raise as much this week but it has a good, solid and very substantial auction of over 300 lots.

Christie's, in contrast, expects its best Old Master auction ever in the US, with a high estimate of \$27m. It is offering a Velazquez, of St Rufina, which carries a \$3m estimate. No fully authenticated work by Velazquez has appeared at auction since 1970, when his portrait of Juan de Pareja set a record for any work of art at auction of £2.3m (\$5m).

St Rufina is not in this class, but the interest in the painting – not least from museums, who are big players in this sector – has caused Christie's to double its expectations. Like most of the great Old Masters to arrive at auction it has spent much of its past life wrongly attributed – in this case to Murillo. Now it is the centrepiece of a group of 22 Spanish Old Master paintings, which also includes works by El Greco and Murillo.

This specialist mini auction inside the major sale is part of a recent trend in which overlooked areas of art are polished up for extra promotion. The time has come for Spanish painting.

Christie's is also offering a Canaletto: indeed this recently discovered "Capriccio of a piazza" is reckoned to be the artist's first recorded painting. It is an imaginary view of a Venetian square and carries a top estimate of \$500,000.

Other important works on offer include a full length portrait of a gentleman by Frans Hals; a river landscape by Van Goyen; and a typical scene of brawling peasants by Pieter Brueghel II. But more interest might be shown in a group of French 18th century paintings sent for sale by BNP, the French bank, which dabbled in art investment around 1990. Whether it pays off depends on the bidding for the highlights: an Egyptian fantasy by Hubert Robert; a superb portrait of a young boy in Hungarian dress by the largely forgotten Pierre-Hubert Subleyras; and "La lettre" by Boilly, which is unusual in being painted to look like an engraving.

In financial terms BNP might not show a profit, but the appearance of these paintings will certainly give a fillip to French 18th century art. The Subleyras in particular has attracted a lot of interest and it is likely to exceed its \$800,000 top estimate. In 1990 Christie's sold it for \$570,000.

Sotheby's is offering a classic Old Master, "The agony in the Garden" by Poussin, which only resurfaced a few years ago and is in a fine but uncleaned state. It is being sold by a Swiss bank and should make at least \$4m. There has also been considerable interest shown in a macabre painting by Pieter Brueghel the Younger, "The Triumph of Death", which was inspired by the horrors of the bubonic plague.

It is being sold from the estate of Peter Putnam, an eccentric millionaire who worked as a night watchman; it should make \$1.5m. Anyone who misses out on this lot has the chance to bid on four more works by Brueghel. Sotheby's would be pleased to bring in \$40m from the auction.

All the omens are good for these auctions, with dealers, museum curators and private collectors from all over the world picking over in excess of 500 top quality Old Masters. There might even be an appearance by Steve Wynne, the Las Vegas hotelier, who last year bought a Rembrandt and a Rubens to decorate his hotel complex. Naturally they are also for sale.

Behind the scholarly excitement in New York this week will rage two battles – between Sotheby's and Christie's for pole position in this increasingly lucrative market, and between London and New York for dominance as the distribution centre. Traditionally New York was tops in Impressionist and Modern art while London's centuries of expertise made it the centre for Old Masters.

Now New York seems to have seized control of this sector. January auctions appeal to the trade, which is keen to stock up for the Maastricht art fair in March; New York also has low taxes and a growing number of local collectors.

London is still important, with December's Old Master auctions raising over £13m at Sotheby's and almost £15m at Christie's, but if the threatened taxes from the EU – VAT doubled to 5 per cent on art works imported from non-EU countries and the imposition of the *droite de suite*, giving heirs of artists a royalty on sales – come into force as expected, its position could be quickly eroded. It is already facing a challenge from Paris, which is shaking off many of its bureaucratic restrictions and should soon be handling the 17th and 18th century French Old Masters now sold in London and New York.

The battle between Sotheby's and Christie's is likely to ebb and flow, depending partly on the promotional deals that the auction houses dare offer owners of big collections. They can no longer cut charges, but they can offer guarantees and spend fortunes on promotion. What used to be a sedate market, dominated by dealers, museums and a handful of rich connoisseurs, is now a bitterly contested battlefield.

The connoisseurs will come into their own with the Old Master drawings sales, which remain the preserve of learned specialists with a good eye and a sense of the past. These, too, are exceptional with Christie's offering tomorrow a \$2m drawing by Barocci, the *modello* for an altarpiece, as well as works by Rubens, Goya and di Credi, while Sotheby's today has choice drawings by Boilly, Canaletto, and van Aelst for passionate collectors who cannot afford to join the increasingly competitive Old Master paintings market.

Detail from 'Portrait of a young boy in Hungarian dress' by Pierre-Hubert Subleyras (1699-1749), which is expected to make over \$800,000 at Christie's, New York

Another young life of unrealised promise

THEATRE

IAN SHUTTLEWORTH

Brief Candle
New End Theatre, London NW3

"Dear Diary: met the Pope today – seems an amiable old fellow. Also, I seem to have developed consumption."

All right, this is a gross parody of both Marie Bashkirtseff's diaries and Carlo Ardito's play based on them, but ... within the last three months we have seen *Saving Charlotte* (about Charlotte Salomon), *The Snow Palace* (Stanislawa Przybyszewska) and now *Brief Candle*: might we perhaps, please, have a temporary moratorium on plays about little-known, obsessive, young female artists?

As Ardito's narrator admits at the close of the play, Bashkirtseff was a promising but (thanks to TB) professionally untried singer, a fairly skilled painter and something of a beauty, but her reputation rests almost entirely on the posthumous publication of her prodigious journals – 103 volumes by her death in 1884 at age 24.

These reveal the young "Riviera Russian"'s determination to be remembered for, well, something or other pretty great: at age four she thought she would marry the Tsar and achieve social reform, at age 13 marry the Duke of Hamilton and become notorious in society; her last months she divided between planning to win the Prix de Rome for art and corresponding pseudonymously with Guy de Maupassant.

It was a life filled with promise, but promise unrealised, and although pleasant enough, neither Ardito's piece nor Stella Quilley's production can escape this sense that it really consists of a prolonged yet unfinished overture to an actual life. The show's selling point is the involvement of Quilley's husband Denis as narrator (and in miscellaneous male roles ranging from Marie's father to King Victor Emmanuel II by way of His Holiness). Denis Quilley is, of course, a skilled actor, but seems here simply to be taking it easy before his next major season at the National. He treats the audience as friends at an after-dinner entertainment, allows gentle fun to be poked at his comfortable girth, and at one point even playfully twirls his false mustachios.

Elsewhere, the play relies on similarly knowing touches to elicit complacent, ironic smirks from the audience, as when Marie – a champion of representation in art – speaks of the Impressionist trend towards "painting by patches – in my opinion, a grave mistake." Moreover, surely all playwrights are now aware of the pitfalls of the historical-drama syndrome summed up in the line "Hello, Chopin – my, that's a nasty cough." Yet Ardito delights in references to things like "the new sect they're calling Communism", and actually (oh, joy!) does introduce Marie's incipient consumption by having another character remark that "The girl has a very nasty cough".

As with the other plays mentioned above, *Brief Candle* is a fairly agreeable way to pass a couple of hours, but hardly compelling in its subject matter.

Until February 14.

Duo at the cutting edge of impro

JAZZ

GARRY BOOTH

Max Roach and Cecil Taylor
Barbican Hall, London EC2

Pianist Cecil Taylor and drummer Max Roach have held up as the barely acceptable face of modern jazz for nearly 40 years. That they continue to stand at the bleeding edge of the avant garde after so many years says as much about their enduring showmanship as it does their ability to unsettle. "Oh boy," said an anxious voice behind me after the first set at the Barbican Hall on Sunday, "Oooh boy." A solo set from each followed by a duet is a daunting prospect.

Recognisable melody, rhythm and harmony submerged in a maelstrom of notes delivered with ferocious, unremitting energy, has been Taylor's trademark since he came to the fore in the mid-1960s. Unlike Taylor, 75-year-old Roach has a bebop pedigree, and in the 1940s worked with Parker and Gillespie. But he took a left turn in the 1960s to join the politically inspired modernists and his work has been on the dissonant side of jazz correctness since.

Age has deprived Roach of firepower and he looks frail now shuffling towards his kit. But the technique persists and all the polyrhythmic sharpness is still in place. His kit is not fancy (three ride cymbals, three snares, two tom-toms, a bass drum and a hi-hat) and Roach's sound separates each piece out in sharp relief. In bop fashion, the steady hi-hat *(tish-tish-tish)* points the way while the other drums orbit elliptically and independently.

Taylor, 10 years Roach's junior, is in fine fettle and milked our credulity for all it was worth (up to £17.50 for the best seats) with his opening gambit of gargled Dadaist poetry and free-form T'ai Chi moves. Once installed at the keyboard (which he eyed, with theatrical suspicion) he was quickly elbow deep in keys, however: indeed, much of the pleasurable effect of the playing was derived from the sense of relief that the poetry had stopped.

Perhaps that's the secret of their success – they're two safe pairs of hands at the dangerous end of the business

The second half, performed as a duet, raised the game of both players. Roach, more limber now, dug in methodically to carve a twisting channel for Taylor's torrent of notes. As the tide turned back to Taylor controlling the stream of ideas, Roach clattered across the current to fill every available space with eddying rhythms.

Free improvisation can look easy. But in the wrong hands and without the traditional progression of choruses and bridges going by, it can be too scary for comfort. On Sunday Roach and Taylor together arrested time and placed the listener firmly at the centre of a vivid musical diorama. Perhaps that's the secret of their success – they're two safe pairs of hands at the dangerous end of the business.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Jan 28, 31

ANTWERP

OPERA
Flanders Opera
Lulu: by Berg. Conducted by Bernhard Kontarsky in a new staging by Ivo van Hove, with Constance Hauman in the title role; Jan 27

BARCELONA

CONCERTS
Palau de la Música Catalana
Tel: 34-93-268 1000
● Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 27
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Mahler; Jan 28

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Die Zauberflöte: by Mozart. Conducted by Jiri Kout in a staging by Günter Krämer, with designs by Andreas Reinhardt; Jan 27
● Manon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Jan 28

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Mefistofele: by Boito. György Györiványi Rath conducts a revival staged by Peter McClintock. Samuel Ramey sings the title role; Jan 30
● Roméo et Juliette: by Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorgiu; Jan 29; Feb 1

HOUSTON

THEATRE
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
A Little Night Music: by Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade, Thomas Allen and Sheri Greenawald; Jan 29, 30, 31

LONDON

CONCERT
Barbican Hall
Tel: 44-171-638 8891
Royal Philharmonic Orchestra: conducted by Daniele Gatti in works by Brahms and Mahler, with soprano Ruth Ziesak; Feb 1

DANCE
Sadler's Wells
Tel: 44-171-863 8000
Tanztheater Wuppertal Pina Bausch: Viktor. Long-awaited return to London by the Pina Bausch company, which is celebrating its 25th anniversary. With designs by Peter Pabst and a score including jazz, folk and classical music; Jan 27, 28, 30

EXHIBITIONS
National Gallery
Tel: 44-171-839 3321
Portraits by Ingres: Images of an Epoch. 40 paintings and 50 drawings by the 19th century French painter. Includes major loans from museums in France, the US and elsewhere; from Jan 27 to Apr 25, then touring to the US

Royal Academy of Arts
Tel: 44-171-300 8000
Monet in the 20th Century: arriving in London from Boston, this exhibition brings together late works by the founder of Impressionism. The 80 paintings on display include important public and private loans, culminating in a group of seven of the monumental water lily panels which were the triumph of his career; to Apr 18

LYON

OPERA
Opéra National de Lyon
Tel: 33-4-7200 4500
Zelmira: by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos, with a cast including Mariella Devia; Jan 27, 30; Feb 1

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Jan 27, 30

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts a staging by Götz Friedrich. Cast includes Adrianne Pieczonka and Waltraud Meier; Jan 27, 30

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by André Previn in works by R. Strauss; Jan 27, 28, 29, 30

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Werther: by Massenet. Donald Runnicles conducts a staging by Paul-Emile Deiber. Cast includes Thomas Hampson; Jan 27

PARIS

CONCERTS
Cité de la Musique
Cleveland Orchestra: conducted by Christoph von Dohnányi in the European premiere of Ives' and Porter's Emerson Concerto. The programme also includes works by Ives and Schubert. With piano soloist Alan Feinberg; Jan 31

Salle Pleyel
Tel: 33-1-4561 6589
● Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 30
● Luciano Pavarotti: recital by the tenor, accompanied by pianist Leone Magiera; Feb 1
● Orchestre de Paris: conducted by Neeme Järvi in Orff's Carmina Burana; Jan 27, 28

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Canteloube and Mahler, with soprano Dawn Upshaw; Feb 1

PRAGUE

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 31

SAN FRANCISCO

CONCERT
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
Jean-Yves Thibaudet: recital by the pianist of works by Debussy, Rachmaninov and Liszt; Jan 30

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
NHK Symphony Orchestra: conducted by Stanislaw Skrowaczewski in works by Beethoven, Chopin and Lutoslawski, with piano soloist Bella Davidovich; Jan 28

TURIN

EXHIBITION
Biblioteca Reale
Tel: 39-011-545303
Leonardo drawings: 12 works from the library's collection, on display in their new air-conditioned and fireproof home. Includes preparatory sketches for 'The Virgin of the Rocks' and nude studies; to Jan 31

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Chagall, Kandinsky, Malevich and the Russian Avant-garde: exhibition exploring the artistic upheavals of the first two decades of this century. In addition to important loans from the State Hermitage Museum in St. Petersburg, the show brings together pictures from 14 provincial Russian museums; from Jan 29 to Apr 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

An incomplete city

In his final article in his series on the changes in former Soviet Bloc countries in the 10 years since the fall of Communism, John Lloyd returns to Berlin where it all started

The vote in the German Bundestag to move the country's capital from Bonn to Berlin was narrow – 338 to 320. The deputies who came from what had been West Germany voted decisively against – 291-214. Without the votes of the easterners, Germany would have remained governed from deep inside its west.

You are reminded of this as you walk about Berlin now. Reminded, because the grudging, distrustful vote contrasts so savagely with the burst of joy and freedom on the night of the wall's collapse on November 9 1989. When the implications sank in of the throwaway remark at the end of a chaotic press conference by Gunter Schabowski, the East German Communist party politburo member – that East Germans could now cross to West Germany through the wall – the Bundestag burst into the national anthem. An East German border guard officer, for decades the symbol of repressive terror, gave his hat to a girl and got a kiss in return.

Now, the renovation of the Reichstag on the Brandenburg Gate's western side is nearing completion; its Prussian shell sandblasted of the old bulletholes and canopied by a glass dome designed by Norman Foster and said to symbolise openness to the nation and the world.

Unter den Linden, a showcase even under communism, is now lushly commercial – save for the vast Soviet, now Russian, Embassy, sprawled out sullenly and redundantly beside the renovated Hotel Adlon, where Hitler put up his state guests.

The Museum on Checkpoint Charlie is full of images of escape – photographs or reconstructions of tunnels, escape compartments in cars, the bleeding body of Peter Fechter, who bled to death on the wall while trying to escape a few metres from Checkpoint Charlie in August 1962; Olga Segler, a grandmother who died from injuries she sustained jumping from a second floor window to the west in September 1961. This was totalitarianism's clearest face – and the one which presented, implicitly, the greatest homage to the west.

Now, Germany's political class is moving, albeit reluctantly, back to a capital which has been in the past two centuries' imperialist, fascist and communist and thus must confront history more intimately than it had to in the past when the centre of the state was in a quiet university town.

Germany's official and intellectual life is shot through with a recognition of the past, which is not – as in Russia, Japan and China – ignored, hidden or denied.

But, as Gerhard Schröder the chancellor, has said, the new politicians of the German coalition are postwar figures. Three of its senior members, Oskar Lafontaine, finance minister, Joschka Fischer, foreign minister, and Schröder himself are the sons of impoverished families who had to struggle to give them enough to eat in the savagely Darwinian conditions of the immediate postwar.

Bonn made a statement of abasement by its size and position. Berlin has been ambitious in everything it has tried – empire building, decadence, artistic excellence, world domination, and class consciousness.

Will it succeed in making a post-unity statement of inspiration to the Germans, and perhaps to all Europeans?

One of the effects of determined federalism and of division has been that Frankfurt, Munich, Stuttgart, Cologne, Düsseldorf and other cities have taken their shares of industry, finance and media. Only one small division of Daimler Benz will be headquartered in its soaring new building on the Potsdamerplatz. The stock exchange will not be moved from Frankfurt. None of German's leading journals and newspapers is headquartered in Berlin, nor are any of its TV channels.

"They want it," says Toni

10 years after

Pfeiffer, an activist on the much-contested Berlin architectural scene, "to be the capital once more of *Mittel Europa*. But it won't be. It excludes even East Berlin, never mind the rest of Europe."

That part of Berlin's – and Germany's – most vivid history remains the Nazi period, 12 years which gave the world an apparently eternal lexicon of the extremes of horror against which all other horrors are explicitly or implicitly measured. Berlin knows that well. In the zinc-clad Museum of Jewish History – its contents rendered the more piteous because of the city which surrounds it – there is a statement of both power and dignity.

But no statement is final. Julius Schoeps, who runs the Moses Mendlesson Centre in Potsdam, says that "the Jewish question is open in a way it was not when the division settled everything. There were 30,000 Jews in the west, only 10 per cent of which were German Jews; and only 450 in the east. Now there are 70,000 newcomers, mostly from the former Soviet Union whom Helmut Kohl encouraged to come, with no ties of blood here; they throw up many problems, especially when questions of restitution are raised."

Berlin itself cannot escape complexity. Even in honouring its finest – as in calling the street beside the Philharmonic Hall after Herbert von Karajan – the city reminds those with long memories that von Karajan's career began under the Nazis with the aid of a Nazi party card – yet whose second wife was part-Jewish.

East and west now have free intercourse, but the recoil of both is palpable. I visited the offices of the sparky radical daily paper Tageszeitung, still the expression of a German 1960s radicalism which centred on Berlin because the city – whose inhabitants were exempt from military service – were disproportionately pacifist, feminist, ecological and critical of all establishments.

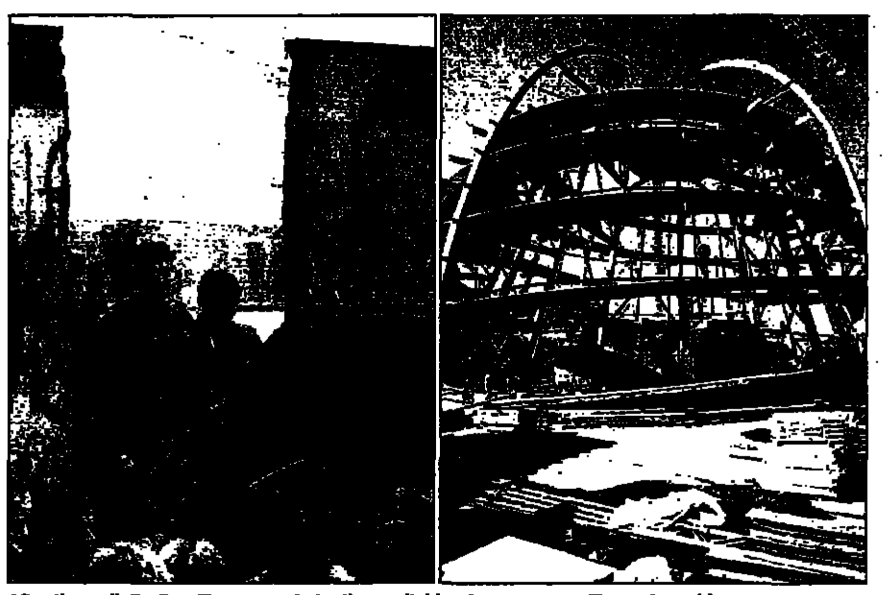
Tageszeitung is successful because of its mixture of high seriousness and devotion to its founding principles. Its morning editorial conferences, at a much earlier hour than most dailies, begin with a 20-minute critique of the day's issue by a staffer or outsider, then ploughs through a packed news agenda on which everyone can have his or her say.

Tageszeitung, says Badscha Mika, one of the three editors, hired a number of east German journalists after the fall – but it did not work well. They were simply different. Their radicalism was of a wholly different kind; their journalism, to west German eyes, cautious. The crisis came when the newspaper obtained a list of east German secret police officials and debated at its meeting whether to publish.

"All the East Germans were against it," says Ms Mika. "They were horrified, saying it would just cause endless trouble. It was a passionate discussion, a real row. In the end they won the argument – but those who wanted it published put out a separate leaflet with all the names anyway."

This is a city incomplete; incomplete, obviously, in the ambition of its new buildings – but incomplete politically, socially, culturally. It remains different from the rest of Germany – its unemployment (at 20 per cent) higher, its districts poorer, its political style more radical. No one doubts the national dedication to see Berlin rise again, but its message will be veiled and ambiguous.

Previous articles in this series appeared on January 11 (Romania), January 5 (Czech Republic), December 29 (Poland) and December 28 (Hungary).



After the wall: Berlin will once again be the capital but its message will remain ambiguous

LETTERS TO THE EDITOR

Japan must follow road less travelled

From Mr Howard B. Garber.

Sir, Paul Krugman ("Japan heads for the edge", January 20) is correct to point towards monetary expansion as the proper method to regain Japanese economic well-being. But he takes the wrong fork in the monetary road.

He asks whether Japan has developed "some novel economic theory under which a strong yen and high interest rates are expansionary". The quick answer is, no. Economic reality is now the present Japanese economic policy. The Japanese, I believe, now understand that creating an attractive income return in interest-bearing accounts will attract money into those accounts. Their action will create desired monetary expansion.

Prof Krugman equates lower interest rates and weak currency with the road to economic health. Since the beginning of this decade, the Japanese have taken this traditional approach and have aggressively cut interest rates. This worn-out policy provided a continuing cycle of lower interest income returns. Factor in a depreciating currency and a scenario is constructed for many negative returns. Common sense dictates that this was a misplaced rationale which reduced holdings of broad aggregate Japanese interest-bearing certificates. The St Louis Federal Reserve recently reported M2 growth averaging approximately 3 per cent in the last five years: very weak monetary expansion under the circumstances.

Enter today's new Japanese economic wisdom. Today's thinking provides that an increase in interest rates will provide increasing returns on interest-bearing certificates. Add a dash of capital appreciation through a strong yen. This then, is the recipe for increasing holdings in interest-bearing accounts and expanding the broad Japanese monetary aggregates, M2 and M3.

Historically, growth in interest-bearing M2 and M3 accounts positively correlates to higher aggregate economic growth. Like the US's early 1980s effort, an aggressive 7 per cent M2 increase will pull Japan out of its economic malaise. History also instructs that patience be maintained: economic growth generally occurs *18 months* after the beginning of sustained monetary growth. It also teaches that sustained interest rate cuts and subsequent low levels failed to boost economic growth anywhere worldwide during the 1930s.

Now is the time for the Japanese to debunk conventional wisdom. They must maintain interest rates high enough to attract broad aggregate interest-bearing investment. They must be vigilant against a depreciating yen reducing investment returns and creating a currency outflow. Japan must follow the road less travelled. Money will flow into the economy, and it will quickly regain its rightful place as a powerful global economic engine.

Howard B. Garber,
2305 N. Commonwealth,
Chicago, Il 60614, US

Expect a much bigger bond crash

From Mr Richard A. Werner.

Sir, Paul Krugman is right to argue that, for a recovery, Japan simply needs to print money, and lots of it. He also says the Bank of Japan has failed to do just that. Yet he cites no statistics, only circumstantial evidence: "slumping bond prices" and a "sky-high yen".

By adding up all the transactions of the central bank, one can measure its net credit creation reasonably accurately. Since March 1998, the BoJ has been printing money at a pace three times as fast as during the bubble years of the 1980s and unprecedented in a quarter century. So why have bond yields almost tripled and the yen jumped by almost Y30 to the dollar since September?

Other things being equal, money printing will weaken the yen and push down bond yields. But the flaw lies in the assumption of "other things being equal". The yen-dollar exchange rate is determined by events in both countries. BoJ money printing has remained at historically high levels, but is not accelerating. Meanwhile, the Federal Reserve has been accelerating its dollar creation drastically. That had to weaken the dollar and strengthen the yen.

The rise in bond yields was also inevitable. The bubble in the bond market had been used by the banks to create vast profits necessary to write off their vast bad debts. When the bond bubble had done its job, the banks sold – at the peak, using derivatives. Without buying support from the banks, there was nothing to keep yields at such low levels. Indeed, the money printing of the Bank of Japan and the end of the bad debt problem imply that we must expect a sharp economic recovery this year. More growth means higher yields. Expect a much bigger bond crash.

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PERSONAL VIEW EISUKE SAKAKIBARA

Japan: don't panic

Critics have argued that the Japanese economy is facing shipwreck and that the government has been supine in the face of it. They are wrong on both counts

Paul Krugman, an American economics professor, has long been pessimistic about Japan's prospects for recovery and seems to use every occasion to make the simplistic argument that money should be created in *whatever way possible to* stimulate the economy. Now he is criticising the near-passivity of Japanese authorities in the face of "slumping bond prices and a sky-high yen" which he claims may throw the economy "into deflationary tailspin" (Financial Times, January 20). I disagree with this analysis and would like to explain our perception that some of the isolated positive signs we are observing now in Japan may develop into a genuine bottoming out of the economy in fiscal 1999.

First, consider long-term interest rates. In September 1997, the Japanese government bond (JGB) rate was around 2 per cent, close to its historic low. The near-panic set off in October 1997 by the bankruptcies of some large financial institutions resulted in a big switch of funds away from private financial institutions and towards the public sector, postal savings, and JGB market in the fourth quarter of calendar 1997 and the first half of 1998. Banks which were concerned about possible default in the interbank market placed their short-term liquidity in JGBs and created what could be called a JGB bubble.

Fear of financial collapse receded in the latter half of 1998, following a series of government actions including the establishment of an independent supervisory agency and legislation for liquidation, receivership, and recapitalisation. Confidence in private financial institutions began to be, at least partially, restored. Growth in postal savings, deposits in the Trust Fund of the Ministry of Finance, and Trust Fund purchases of JGBs naturally declined.

Given the current credit crunch, what matters for companies is liquidity and not the 2 per cent nominal interest rates. In addition, there is also now a steeper yield curve (note that the interbank rate is being maintained around 0.25 per cent). This should help banks in financial difficulties in the medium term, although it is true that a sudden jump in the JGB rate might result in short-term capital losses. It *is worth remembering that* American banks overcame their difficulties some 10 years ago thanks to a similar big differential between long and short rates.

Now consider the yen-dollar rate. Before the financial panic – ie, during 1996 and up to September of 1997 – the rate was in the range of Y105-Y130 to the dollar. Concerns about the financial system then drove the rate down to about Y146 in June and August of 1998. However, the worldwide financial crisis that followed Russia's default and the rescue of Long Term Credit Management – as well as the eventual restoration of relative calm in the Japanese market – resulted in the unwinding of speculative short positions in yen in the last quarter of 1998.

Prof Krugman and others have said that the rise in the yen is harmful to economic recovery, and indeed the Japanese authorities have showed their determination to stop the yen's excessive strength. But what is really important for the Japanese economy is not necessarily a particular exchange rate but stability within a reasonable range. We intend to achieve this as long as stability is *consistent with the fundamentals* of Japan against the rest of the world.

All in all, the year following the bankruptcies of big financial institutions in October-November 1997 was an abnormal period when both Japanese depositors and overseas investors feared that the Japanese financial system was on the verge of collapse. The JGB and foreign exchange rates which prevailed during that period reflected a crisis mentality and exhibited extraordinary negative swings. Arguing that such rates are necessary ingredients for the recovery of the economy implicitly assumes that Japan is still amid a severe financial crisis.

There is no reason to believe that Japan is about to go into a deflationary tailspin. The financial crisis is about to end and with some lag the real sector will bounce back

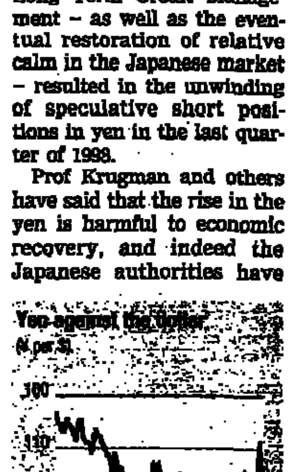
In fact the financial crisis is either over or is about to be over thanks to the enactment of a series of laws and actions of the Financial Supervisory Agency (FSA) over the past few months. Two banks deemed insolvent by the FSA were nationalised, and weak but viable banks, among the remaining 17 major banks, are being asked to restructure their operations (including mergers and joint ventures) in return for an infusion of public money. The merger of Chuo Trust with Mitsui Trust announced on January 19 is part of the strategy.

Aggressive restructuring by financial institutions will continue to mean the real economy will suffer a severe credit squeeze for some time. Our macroeconomic policies, both fiscal and monetary, are geared to relieve such strain while microeconomic measures are being implemented to guarantee loans to medium to small-sized enterprises. Although we are not optimistic that the real economy will turn around quickly because of the lingering impact of the credit crunch and the loss of confidence since late 1997, there is no reason to believe that Japan is about to go into a deflationary tailspin. The financial crisis is about to end and with some lag the real sector will bounce back.

Meanwhile, two misperceptions of Japan need to be corrected once and for all. The first is that not enough money is being printed.

In fact, following the panic of October-November 1997, abundant liquidity has been supplied to the market by the authorities, although it is true that banks have been rapidly reducing their assets and lending to improve their capital ratios. The average rate of monetary growth was 4.0 per cent in 1998, compared to 3.1 per cent in 1997. Prof Krugman asserts that additional money must be created. That is exactly what is being implemented.

The other misunderstanding is the possibility of "crowding out" private borrowers by public ones. Although outstanding gross government debt exceeds 100 per cent of gross domestic product, our net debt, including the social security fund, is less than 40 per cent of GDP, the lowest of all Group of Seven countries. In addition, around Y100,000bn (20 per cent of GDP), is held by the Trust Fund of the ministry of finance. Given that total personal financial assets are estimated to be around Y1,200,000bn (240 per cent of GDP), there is absolutely no possibility of crowding out now or in the foreseeable future. Furthermore, recovery after seven years of recession will significantly improve the fiscal deficit – although fiscal consolidation will be necessary as the economy picks up speed.



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FINANCIAL TIMES
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Yellow peril for trade

Ever since they came to blows two years ago over the US Helms-Burton anti-Cuba law, the US and the European Union have vowed to stop silly trade squabbles jeopardising their overall relationship. Their current dispute over bananas offered a perfect opportunity to put their good intentions into practice. They have abysmally failed the test.

Not only is the dispute driving a wedge between the US and Europe, when global economic instability requires them to intensify co-operation. The affair risks plunging the World Trade Organisation into an institutional crisis, imperilling its authority to enforce multilateral rules and deeply dividing its members.

Both sides are to blame. The US is behaving recklessly by threatening the EU with sanctions for failing to implement a WTO judgment against its banana regime. At best, this looks like jumping the gun, before the WTO has determined whether changes to the regime bring it into line with its ruling. At worst, the US is engaging in crude unilateralism, which violates the spirit – if not the letter – of the WTO rules it says it wants to uphold.

But Washington acted only after severe provocation by the EU. Its modifications to its banana regime appear minimalist. Furthermore, Brussels has repeatedly met US demands that the WTO examine the amended regime with procedural delaying tactics. This obstructionism suggests serious EU doubts about the strength of its own case.

These antics, based on legalistic exploitation of ambiguities in the WTO's rules, are irresponsible, above all when performed by the world's two largest economic powers. The next world trade round should aim to limit the scope for such machinations, by tightening the rules.

But the first priority must be to resolve the immediate crisis. Justice, and the integrity of the WTO, demand that it be allowed to give a clear, objective and unequivocal judgment on the banana regime. The parties involved have said they are ready to respect the outcome. But they disagree over the timetable, and particularly over US refusal to suspend its sanctions threat until the WTO rules.

To allow these obstacles to frustrate the possibility of an orderly solution would be inexcusable. Both sides need to recognise that promoting and respecting the impartial rule of law is more important than the relatively trivial commercial issues at stake. They have long preached the primacy of that principle to the rest of the world. They should now show that they are determined to apply it unflinchingly to their own interests.

Arab successions

The rejuvenation of the Arab world's ossified leaderships is long overdue. King Hussein of Jordan, stricken for the second time this decade with cancer, astonished his people this week by shunting aside his bookish brother Hassan – crown prince for the past 34, tumultuous years – and anointing his eldest son Abdullah, 37, as his successor.

In the short term this may trigger a certain amount of dynastic upheaval. But Hussein, the region's great survivor after 46 years ruling a kingdom coveted by predatory neighbours, is at least still around while his heir is trying on the crown.

It is clear why Prince Abdullah was chosen over Prince Hassan and two rival siblings. As a major-general since last year, he heads the elite Special Forces – the hinge between Jordan's Bedouin army and the ubiquitous *mukhabarat* or intelligence services, which together are the bedrock of the Hashemite monarchy. Jordan has a sort of controlled democracy which has tried to include Islamist parties. But the army is no less central an institution than in the less benign despotisms of its Arab neighbours. Indeed, one of the King's main charges against Hassan was that he had meddled in the army.

Many other Arab countries, ruled in the main by ageing and ailing leaders, are facing succession problems. In nearly all, power derives from the armed forces, even if, as in Saudi Arabia or Syria, underneath lies a tissue of tribal loyalties. And, irony of history, it is the republican regimes, heirs to the pan-Arab nationalist tradition of Nasser and the Ba'ath party, which have more dynastic problems than the once-reviled monarchies.

The ailing President Assad of Syria appears to want his untried son Bashar to succeed him; Saddam Hussein has groomed his two murderous sons; and even in Egypt, discreet regime voices are promoting President Mubarak's banker son Gamal. None of these leaders, or the ailing Yassir Arafat, has a recognised successor, should they succumb to illness or an assassin's bullet. The House of Saud, by contrast, has let Crown Prince Abdullah run Saudi Arabia in the ailing King Fahd's stead – yet jockeying to succeed the crown prince is already under way.

All this threatens instability when these rulers depart the scene, and a crisis of legitimacy, which only greater democracy, transparency and economic success can eventually remedy. Unhappily, however, most Arab despots are likely to look across the river Jordan to Israel, where the polity is fast fragmenting on ethnic, religious, ideological and tribal lines ahead of May's general election, and confirm smugly that democracy is not for them.

UK economy

The danger that the UK economy might skid out of control and end up in the ditch has receded. But the latest quarterly industrial trends survey from the Confederation of British Industry shows that manufacturers are still very despondent.

The survey reports that 45 per cent were more pessimistic about the business situation than they were four months ago, although the balance of pessimism has improved somewhat since the exceptionally low levels of last summer and autumn.

How should this be interpreted? On past form, confidence levels as low as those recorded in the last three surveys would be pointing clearly to a deep recession. For despite the fact that the manufacturing sector accounts for only a fifth of national output, the CBI survey has proved an accurate barometer for the whole economy.

So far in this cycle, however, the woes of manufacturers have been offset by a buoyant services sector three times the size of manufacturing, although the health of the two are interlinked.

There is now some sign of a deceleration of growth in services during the last three months of 1998. But the sector still expanded by 0.6 per cent, helping to keep growth of the whole economy just above zero.

Household spending and retail sales have also been weakening, but the consensus of independent forecasters is that private consumption will rise by about 1¼ per cent this year, about twice as fast as expected growth for the whole economy. A projected 2¼ per cent rise in government consumption will provide an even stronger prop to the economy than private consumption. But this is likely to be offset by increased leakage resulting from rising imports and sluggish exports.

It is not surprising, given this outlook for trade, that manufacturers remain gloomy. They were squeezed hard by the Bank of England's anti-inflation policy after May 1997, when interest rates rose in six quarter-point stages to 7½ per cent. Since October, however, this squeeze has been reversed. Official interest rates are back at 6 per cent, while the trade-weighted value of sterling has fallen by 8 per cent since its peak in April.

The slight lifting of manufacturers' gloom revealed in yesterday's survey may reflect this easing of monetary policy. The survey also showed strong deflationary pressures. This may be bad news for sales directors, but it is helpful for the rest of the economy as another piece of evidence that the dangers of inflation have diminished.

The question for the Bank of England's monetary policy committee next week is whether these deflationary forces need to be countered by a further easing of rates to ward off recession. On balance, the answer is yes.

Watch out for the fireworks

Martin Wolf asks whether, by neglecting Wall Street's overvaluation, the Fed has doomed the US to recession

Our objective is the maximum sustainable growth of the US economy, not particular levels of asset prices. Alan Greenspan, January 20 1999.

The Federal Reserve is the world's most prestigious central bank. The reputation of its chairman, Alan Greenspan, is even more exalted than that of the institution. It seems inconceivable that the bull market in their reputations should end.

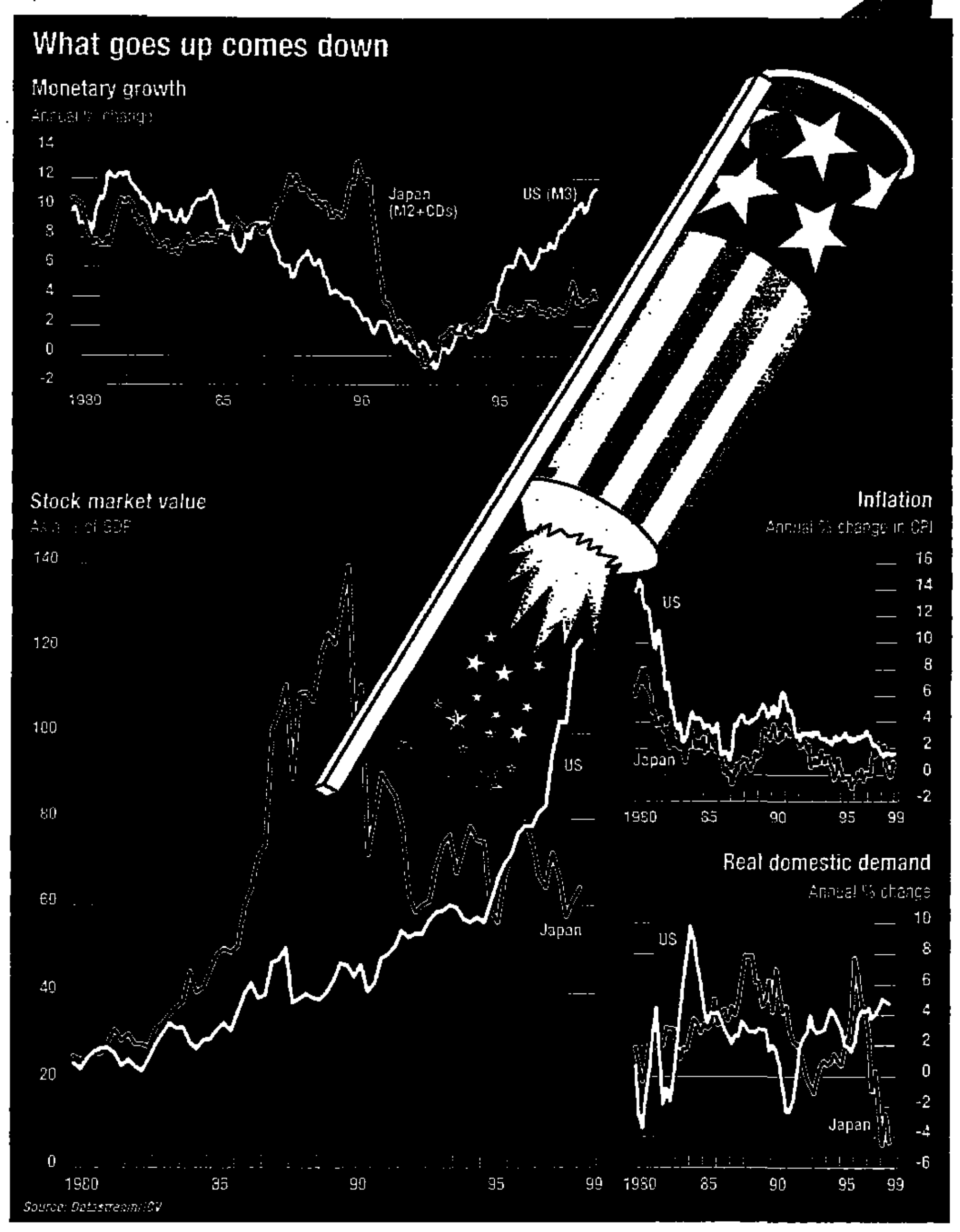
Yet bull markets do end. A decade ago, Japan had a world-beating economy; its stock market seemed invincible and its officials were the masters of manipulating the market. Japan's current condition is evidence enough of the dire consequences of allowing asset bubbles.

If the US economy and the Federal Reserve's reputation are vulnerable, it is to asset prices, as it was in Japan. This was why the central theme of Mr Greenspan's testimony before the ways and means committee of the US house of representatives last week concerned "the rise in the value markets place on the capital value of US businesses".

Mr Greenspan insisted that the easing of monetary policy last Autumn was a response to "an abrupt stringency in financial markets". But, he explained, "we were not attempting to prop up equity prices, nor did we plan to continue to ease rates until equity prices recovered, as some have erroneously inferred".

This distinction is easy to make in theory, but more difficult to understand in practice. An activist policy aimed at "economic activity going forward" will affect perceptions of risk in all markets.

By coincidence, Hans Tietmeyer, the Bundesbank's representative in the European Central Bank, expressed the contrary view on the same day as Mr Greenspan. Monetary policy, he said, should be steady and reliable, not interventionist. It may well be, he admitted, that one can have limited periods of time with artificially low interest rates. But this can easily send wrong signals, which lead to investment mistakes and inflated asset prices. "This would tend," he suggested, "to move the financial markets in the direction of casino capitalism."



Here are two approaches to monetary management which rule the world's two most important central banks. The "irrational exuberance" Mr Greenspan once famously described has been partly the price of an activist monetary policy aimed at the "maximum sustainable growth of the US economy". He gave this celebrated warning on December 5 1996. Since then the S&P composite stock index has risen by two-thirds. But the Federal Reserve has (as the chart shows) allowed monetary growth to accelerate since then, rather than slow. Mr Greenspan barks; he does not bite.

To ask whether policy should have been different is to suggest that more account should have been taken of Wall Street's rise. Should it? Conventional wisdom holds that monetary policy should aim to stabilise inflation – with inflation defined as the change in the prices of a current basket of goods and services.

Within this framework, asset prices enter both as indicators of inflationary pressure and as causes of it. The logic is clear: when money grows more quickly than the willingness of people to hold cash, the excess will be spent. The first object of additional spending is likely to be equities, property, foreign currencies and so forth. The rise in the prices of these assets is going to affect spending on goods and services, by making people feel richer and investment seem cheaper. Consumption and investment will rise and savings will fall.

This seems to be be a good description of the US today. The similarity with the Japan of the 1980s is, the charts suggest, also striking. US growth of broad money is comparable to that in Japan's bubble days. Moreover, the ratio of the US stock market value to gross domestic product is nearly as high as in Tokyo in early 1990, just before the crash.

Has the Federal Reserve been foolish to let this happen? This is not immediately obvious. As is noted in a recent study from the Organisation for Economic Co-operation and Development, "the use of asset prices as indicators of future inflation is not straightforward".* That point also shines from the charts: the US may be in the midst of an extraordinary rise in equity prices, but inflation is also falling to very low levels.

The interesting feature of the chart is that the same was true of Japan, more or less. The great rise in Japanese asset prices in the second half of the 1980s was accompanied by quite modest inflation, which never went above 4 per cent. If the Bank of Japan is judged purely on inflation, its record is good. As for the Federal Reserve, its recent inflation record is outstanding.

Two possible conclusions can be drawn: first, that a central bank can hit its inflation targets without paying much attention to asset prices; but, second, that it may be very dangerous to restrict attention too narrowly to immediate inflation. Just remember the mess Japan has fallen into. So maybe the reason to pay attention to asset prices is not that they necessarily cause inflation, but that they may lead to a deep recession.

By now, the option of choking off the asset boom is unavailable. It is simply too late

As the OECD paper notes, large and sustained asset price declines have, historically, proved very damaging. Consider the US in the 1930s, Japan in the 1990s and much of east Asia today. As Andrew Smithers of London-based Smithers & Co has shown, since 1920 the US has experienced 16 years in which output contracted. Ten of these followed the three previous peaks in equity market valuations, none of them, incidentally, as high as today's.**

The question is why asset price inflation should lead to deflation and depression, rather than conventionally measured inflation. A partial answer can be derived from a classic paper by two American economists, Armen Alchian and Benjamin Klein.*** Its point is simple. A proper measure of inflation would include the prices of future goods and services. This is indicated by the current prices of the assets that give command over future consumption. Thus a rise in asset prices is a form of inflation. It is the inflation that affects savings.

Suppose asset prices rise without any concomitant increase in the quantity of goods and services in future, or in the preference for consumption tomorrow over consumption today. This is pure asset inflation. Under these assumptions assets have become too expensive or goods and services too cheap. Either way, prices are out of equilibrium. The return to a normal relationship between the prices of assets and of current goods and services must then occur either by a reduction in nominal asset prices or an increase in prices of goods and services.

The first means asset price deflation; the latter means conventionally measured inflation. If the former happens, people who felt better off before will feel impoverished. If the latter occurs, the central bank will validate the new set of asset prices by allowing a general inflation. Japan has chosen the first approach, with devastating effects on consumption and economic activity. So did the US in the 1930s.

The conclusion then is that what has happened to the US economy may produce one of two bad outcomes: asset price deflation or inflation in the prices of goods and services. Either way a recession seems likely. If so, this would be because the Federal Reserve paid insufficient attention to asset prices.

To this critique the Fed can give several answers:

- That it is impossible to distinguish asset price inflation from an increase in asset prices that has occurred for good reasons (for example, a reduction in the real rate of interest).
- That it is politically impossible to tighten monetary policy when all people can see is that they are becoming richer.
- That the problems of the global economy over the past year and a half forced the Federal Reserve to ignore the domestic overheating.
- That global price deflation makes it perfectly safe to run an apparently inflationary domestic policy for several years.
- Most important, that it will be perfectly possible to offset the effects on consumption and investment of asset price declines, by using a sufficiently aggressive monetary (and perhaps also fiscal) policy.

Note that if the first of these points is true, then valuing assets is largely guesswork. There is evidence, however, to suggest that it is not. Indeed stock market valuations appear to converge on a mean that is far below current values.****

The remaining points merely define the gamble. In essence, the Federal Reserve decided that it would be easier to manage the aftermath of an asset price fall than any attempt to forestall the preceding rise.

By now, the option of choking off the asset boom is, anyway, unavailable. It is simply too late. But how the US exits from its apparently unsustainable position will determine the verdict on Mr Greenspan's time at the Federal Reserve. Either there will be a smooth transition to sustainability, with neither inflation nor deflation. Or – more likely – there will be a very bumpy ride, with both higher inflation and falling asset prices. If so, the case for paying greater attention to asset prices in setting monetary policy will be vastly reinforced. It will, alas, also be too late for the economy and for Mr Greenspan's reputation.

* *Mike Kennedy, Angel Palerm, Charles Pigott and Flavia Terribile, Asset Prices and Monetary Policy, Economics Department Working Papers 188, http://www.olis.oecd.org/olis/1998doc.nsf/LinkTo/ECO-WKP(98)1;* ** *Andrew Smithers, The Economic Threat Posed by the US Asset Bubble, Report No. 92, Smithers & Co, July 1996;* *** *On a Correct Measure of Inflation, Journal of Money, Credit and Banking, February 1973;* **** *Donald Robertson and Stephen Wright, The Good News and the Bad News about Long-Run Stock Market Returns, Department of Applied Economics Working Paper 9822, Cambridge University, http://papers.ssrn.com/paper.taf?abstract_id=138170.*

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OBSERVER

Flying in for a flutter

When high-rolling Greek businessman John Manetis's luck ran out at the gaming tables, he knew exactly what to do. He put his soaraway airline Cronus up for sale.

With a bunch of domestic routes, slots in London, Paris and half a dozen German cities – as well as boasting the fewest delays of any Greek carrier – Cronus looked like a tasty morsel.

First to bite was Attica Holdings, a Greek super-fast passenger ferry operator quoted on the Athens stock market. But after announcing the takeover, Attica wasn't impressed with Cronus's accounts.

So now another shipping group is taking control of Cronus. The Laskarides family transports bananas round the world, and has a chunk of the Hyatt casino in Thessaloniki – where Manet is said to have gambled more than a few drachmas.

This summer will see a new Hyatt hotel operating at full swing in Thessaloniki, close to the casino – another Laskarides investment. And who'll fly in the punters? Cronus, of course.

Goodbye Gretl

It was last orders this week for Gretl Novak, one of three sisters from Burgenland who ran the famous Gmoa Keller in Vienna. The most popular publican in the city, Novak was awarded three weeks before her death the *Goldene Verdienstzeichen der Republik* for her thirst-quenching services.

As many as 350 people braved the bitter cold to attend her funeral; in her honour, bells across the town were rung in memory of the woman born 81 years ago in Odenburg, now part of Hungary. Not that she always proved to be a welcoming host.

Novak was notoriously picky when it came to allowing customers into her Heumarkt hostelry, often throwing out people because she simply didn't know them. Anxious drinkers were heard announcing they were prominent musicians or actors in a desperate bid to secure a table.

Neither was she intimidated by rank. Even former chancellor Franz Vranitzky, having escaped from a state banquet, was told: "It's a private party and you can't come in." The landlady with attitude looked at his dinner jacket – and added: "Even if you are with the Philharmonic".

Dagmar's friends

After last September's election defeat, the chances of Germany's Christian Democratic Union and its Bavarian sister party, the Christian Social Union, determining the country's next president have remained slim.

But the parties are pulling out all the stops in putting forward Dagmar Schipanski, an electronics professor from Thuringia, as their candidate for the May 23 contest. Not only is the little-known professor a woman, she's also from eastern Germany and, for good measure, isn't a member of any political party.

Even so, Schipanski, who's 55, stands little chance against Johannes Rau, the former prime minister of North Rhine Westphalia who is backed by the ruling Social Democratic party. The choice of successor to President Roman Herzog will be made by the parliament and federal states, most of which are SPD-controlled.

That hasn't stopped newly elected CSU leader Edmund Stoiber and his CDU counterpart Wolfgang Schäuble effusively supporting Schipanski. Perhaps their minds aren't so much on May's contest – but more on the battle for chancellor in the 2002 federal elections.

Pregnant pause

Norway is in the throes of some labour pains. The country's petroleum and energy minister, Marit Arnstad, is taking maternity leave at the end of March. But who will get the job of looking after the country's oil wealth in her absence? The three parties which form Norway's coalition government may be set to indulge in an unseemly scramble for Arnstad's seat. Arnstad's Centre party has six of the 18 seats in the cabinet, which is led by a Christian Democratic prime minister.

Norway isn't entirely new to governmental pregnancies. Grete Berget – appropriately enough the child and family affairs minister between 1991 and 1996 – was pregnant during the Labour government. But filling her job was child's play as there was then only one party to pick from. Berget also simplified the problem by endowing most of her maternity leave on the baby's father, partly to set an example as family minister on how to split maternity leave. Perhaps Arnstad will think up a similar solution: Observer suggests working from home.

Tail note

It's a dog's life. Insurance companies in the US say they're fed up to the back teeth with paying out for damage caused by ferocious pooches. Quincy Mutual Fire Insurance told one dog-owner to abandon plans to adopt a German shepherd because of the risk it might sink its teeth into someone. Nasty hounds like Rottweilers, pit bulls and Great Danes are blamed for a big increase in the number of bites needing medical attention. Who was it who said a dog is a man's best friend?

The Financial Times

100 years ago

Edison's Enterprise

For several years Mr Thomas A. Edison, the well-known American electrician, has been experimenting to find a process for extracting iron by means of magnetism. He had ascertained that in the northern portion of New Jersey there are immense quantities of primal gneiss charged with magnetic iron he believed could be profitably treated if his experiments proved successful. The experimental stage has been passed and Mr. Edison's company, it is stated, is now engaged in turning out iron at a profit of $1.50 a ton.

50 years ago

Marshall Deputy To Stay

Washington, Jan. 26. President Truman has persuaded the deputy Marshall Plan administrator, Mr. Howard Bruce, who recently submitted his resignation, to remain at his post. Last month Mr. Bruce charged Britain, Holland and Belgium with reselling to the United States at a profit aluminium and lead purchased with Marshall Plan funds.

FINANCIAL TIMES
WEDNESDAY JANUARY 27 1999

THE LEX COLUMN

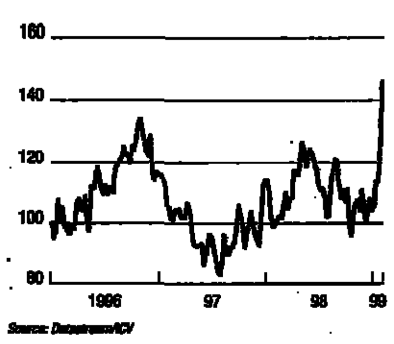
Battle of the portals

Watch out Yahoo! and America On-Line. Here come Compaq Computer and Microsoft. Compaq's decision to float part of its AltaVista internet search engine is an attempt to cash in on internet fever. Early guesses are that the business might be worth $2bn. But the accompanying alliance with Microsoft potentially opens a new front in internet warfare: the battle of the "portals". Portals – sites that aggregate a huge range of content from around the web – are extremely hot with investors. Hence Yahoo's extraordinary market capitalisation of around $34bn.

But does Compaq have a winning strategy? On the plus side is AltaVista's powerful technology. Then there is the special button that Compaq, the world's largest personal computer maker, is putting on its keyboards – it shunts users directly to AltaVista. Add in the Microsoft alliance and AltaVista looks like it has momentum.

But there are a few worries. First, although AltaVista is a grand old man by internet standards, it is a Johnny-come-lately to the portal business. Yahoo! and AOL are far ahead. Second, the supposed advantages of the Compaq link could boomerang; other PC makers will be extremely reluctant to promote AltaVista for fear of losing customers to Compaq. Finally, portals could just be yesterday's game. As users become more familiar with the internet, they may increasingly go straight to the content rather than via portals. And, as things stand, AltaVista is pretty short on content.

LucasVarity
Share price relative to World Auto Components index



Source: Datastream/ICV

Euro junk bonds

It is appropriate that a US company, Tokheim, has launched the first junk bond in Europe's single currency. Although a great future has been predicted for Europe's fledgling high-yield bond market, it is still a minnow in comparison with its transatlantic counterpart.

Much has been made of the impact of monetary union on Europe's conservative investor base, which has grown fat on an unimaginative diet of government bonds. Having relied on currency movements for most of their returns, investors will now have to take more credit risks to maintain a decent yield on their investments. Some fund managers, such as Mercury Asset Management, have been quick to offer dedicated high-yield funds, and with some success. But the markets – and especially the big investment banks that stand to benefit most from the growth of this sector – should not get too carried away with their own hype.

There is good reason why the US junk bond market is worth more than $400bn and Europe's less than $10bn. Activity in the US is to a large extent based on the prolific start-up rate of risky new businesses, and the junk bond market is there to finance them. There is thus plenty of supply for investors to snap up. But until continental Europe develops a more entrepreneurial culture, the growth of this market is likely to be slow.

LucasVarity

Shareholders in LucasVarity are in danger of selling the company short. At 280p a share, an enterprise value of £3.7bn ($6.1bn) allowing for LVA's £200m cash, they would be accepting only 10 times 1998-99 operating profits. This assigns no value to the synergies an industry bidder would reap, no value to new orders that will lift future sales, and no value to the £1bn pension fund surplus. Savings alone of, say, 2 per cent of LVA's £3.6bn autocomponent sales should add a further 10 per cent to the offer price.

Why might UK investors be so keen to cut and run? It still rankles that the old Lucas Industries was in effect taken over by Varity in a no-premium merger. More recently, they balked at the attempt by Victor Rice, chief executive, to move the company to the US. Add in LVA's dismal communications record – the company makes Marks and Spencer seem accessible – and LVA has failed to earn investors' patience. It has been a bad time to be without that patience. The strong pound, high UK interest rates and pricing pressure from powerful customers have left the engineering sector out of favour.

Nevertheless, shareholders should hold their nerve. LVA would be a plum acquisition for a number of rivals. If neither TRW nor Federal-Mogul come good now, other opportunities should present themselves. After all, the autocomponents subsidiaries of General Motors and Ford are heading to market this year.

Bid fever

Have UK institutional shareholders acquired a taste for shotgun marriages? A rash of unsolicited approaches and offers for out-of-favour smaller companies suggests bidders believe big investors have finally lost patience with their underperforming holdings. Institutional activism is certainly on the rise. It is just two months since Phillips & Drew caused a frisson when the fund manager openly induced a hostile bid for a company in which it held a big stake.

Now investor-prompted approaches are becoming commonplace. So far this week the chief executive of Mirror Group has been forced out – partly by a cabal of shareholders – for standing in the way of a £1bn merger with another newspaper group. Institutional disillusionment is also behind an unsolicited move on London International Group.

One reason for the rush of activity is that bidders are becoming increasingly confident about the outlook for the UK economy. Hence the bombed-out share prices of illiquid smaller companies look doubly tempting. But while institutional impatience with smaller companies is a fact of life, there is a danger of selling on the cheap. The best argument for encouraging deals involving smaller companies is to promote the consolidation of fragmented sectors. Selling investors should remember they are entitled to a fair share of the synergies, particularly as they are playing the marriage broker's role.

King Hussein returns to US for medical checks

Fears over Jordan's stability after verbal attack on brother

By Judy Dempsey in Jerusalem

King Hussein of Jordan yesterday returned to the US for medical checks, hours after delivering a stinging attack on his brother, Prince Hassan, who was removed from the line of succession last weekend.

The King leaves behind a growing dispute in the Royal Palace, which has fuelled concern among Jordan's western allies and Israel about the Kingdom's stability.

Ordinary Jordanians are also increasingly worried about the direction of Jordan, a poor desert country, wedged between Iraq and Israel.

In a letter read out yesterday on state-run television, King Hussein, 63, spoke of Prince Hassan conducting a campaign of intrigue and meddling in state affairs. Officials said the embittered prince, 51, was thinking of leaving the country.

The King returned from the US last week, where for six months he had undergone treatment for cancer. He said his brother had fallen victim to "greedy" aides during his absence.

In a tone which surprised diplomats and Jordanians with its bluntness, King Hussein said Prince Hassan had tried to send senior army officers into early retirement, including Field Marshal Abdul-Hafez al-Kaabeneh, chief of staff.

The army, dominated by Bedouins, the King's loyal tribesmen, is one of Jordan's most sacrosanct institutions, the bedrock of its stability.

"I intervened from the sick-bed to prevent interference in the affairs of the Arab Army and in the changes that appeared as though they were aimed at a settling of scores," said King Hussein.

Prince Hassan, appointed crown prince in 1963, was also accused of nominating ambassadors in the King's absence, while his Pakistani-born wife, Princess Sarvath, had redesigned his office, confident her husband would soon be King.

Diplomats said the King's harsh tone was almost certainly an attempt to convince the public to accept his brother's dismissal. They added King Hussein had also wanted to stamp his authority on the Palace which had become a den of intrigue during his absence.

The King accused his brother's supporters of instigating a smear campaign against Queen Noor, his American-born fourth wife, and Hamza, the Queen's eldest son and the King's favourite.

"I and my small family were hurt by the whispering, innuendo and the smearing . . . against my wife and sons," he said.

Whatever the truth in these claims, diplomats cautioned that the appointment of Abdullah, the King's eldest son, to be the Crown Prince, and the public embarrassment of Prince Hassan, might not be enough to quell infighting in the Palace.

"Remember," said a diplomat, "the King had four wives, five sons and six daughters. That's a lot of rivalry. The King could keep the rivalry at bay because he was always around and strong enough. Now it is different. He is very ill."

Prince Abdullah steps forward, Page 6
Editorial Comment, Page 13

Japanese institutions hiding bonds losses with secret deals

By Gillian Tett and Naoko Nakamae in Tokyo

Japanese financial institutions are carrying out unorthodox and secretive securities trades to hide recent losses in Japanese government bond markets.

In particular, some banks have been pretending to "sell" JGBs at artificially high prices to large Tokyo brokers, in exchange for other, low quality bonds "bought" at artificially low prices.

The deal allows investors to conceal losses temporarily because although JGB losses need to be regularly reported under Japanese accounting rules, losses on other securities, such as local government bonds, do not.

The brokers conducting these deals for their clients insist they are not illegal because the Japanese Securities Dealers' Association, the industry body, changed its trading regulations last month, abolishing the rule that all bond trades need to be conducted within 2 per cent of the market price.

However, officials at the Ministry of Finance and Bank of Japan admit that the rule change could encourage banks to conduct a form of *tobashi*, the traditional Japanese practice of shuffling losses between accounts.

Western banks also believe the unorthodox trades would breach global compliance standards. Several have refused to conduct them, even though they have been under huge pressure from Japanese clients. William Campbell, head of research at JP Morgan, says: "This [change in the rule] is very, very disappointing – it is a big step back."

The JSDA denies that December's rule change was intended to conceal losses. "I do not think the rule change led to an increase in *tobashi*. It may have allowed those engaged in the practice to do it on a larger scale," says an official.

Many Japanese banks and life assurance companies are struggling to meet capital adequacy and solvency standards at the end of the fiscal year in March. The state of their bond portfolios has recently become critical, since many suffered large losses when 10-year JGB yields more than doubled to 2 per cent in December.

The biggest losses are believed to have occurred on 10-year JGBs issued with a 0.9 per cent coupon in the autumn. However, large Japanese brokers are now "buying" these JGBs from investors at around the par price of 100, even though the actual market price has fallen to around 88.

In exchange, the brokers are "selling" cheap bonds, such as municipal bonds, at inflated prices.

Unwinding cross shareholdings, Page 4
Japan: don't panic, Page 12
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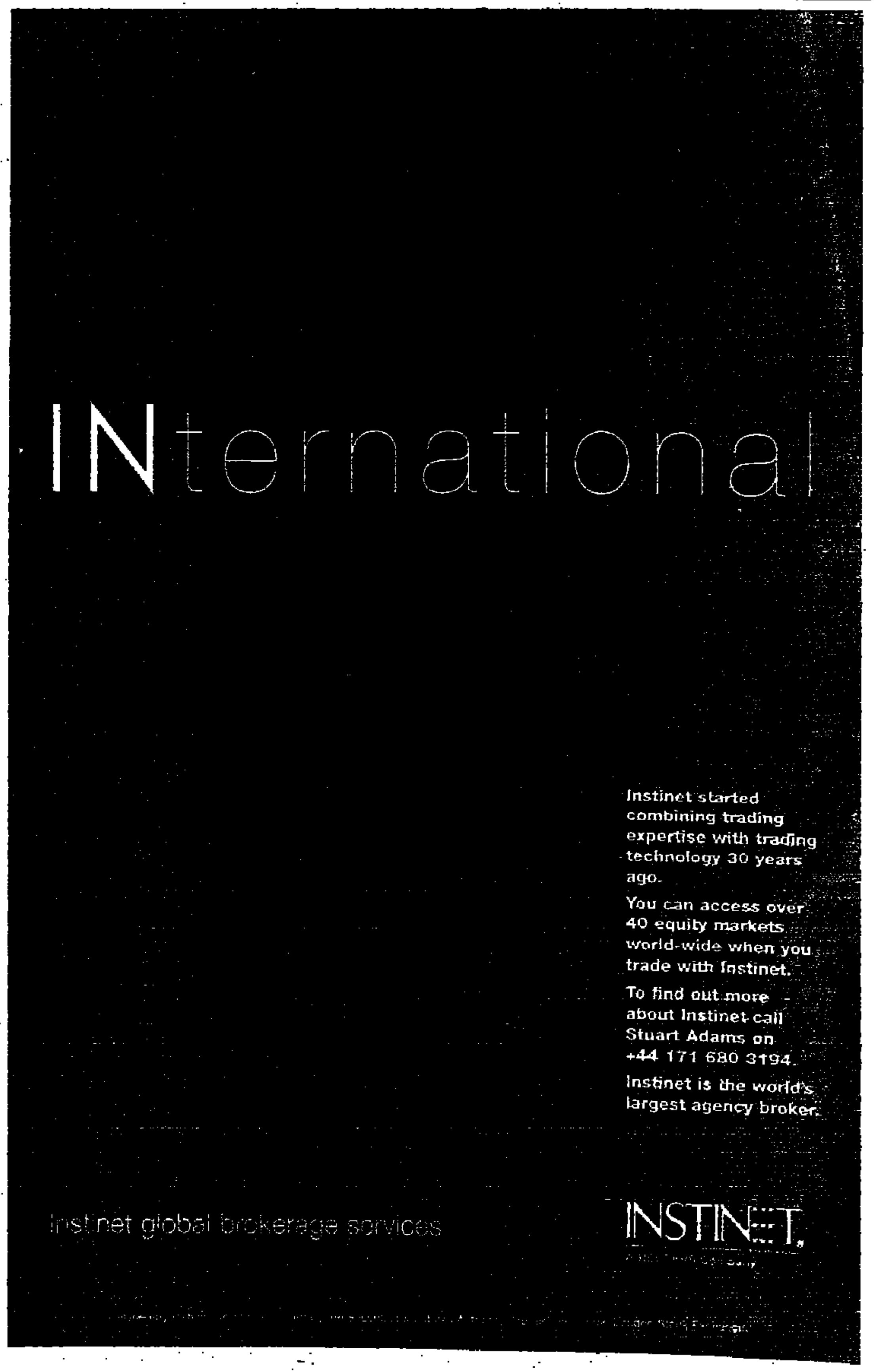

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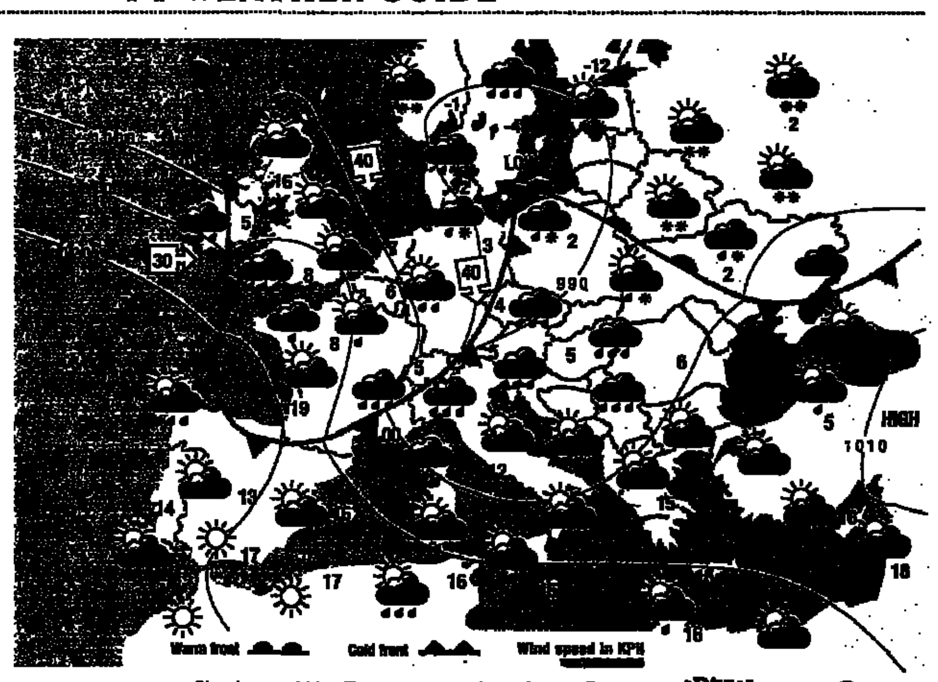
Rescue workers search rubble in Armenia, Colombia, where an earthquake left at least 500 people dead. Picture: Reuters

FT WEATHER GUIDE

Europe today
Rain and sleet over the Low Countries will move east into Germany and southern Scandinavia. Snow in Austria and Switzerland will push south during the day. Much of France will see scattered showers, with more persistent rain in the south. Northern Spain will have showers, but farther south it will become sunny. Northern and central parts of Italy will have a mixture of sun and showers. Greece will be mostly dry and sunny, but there will be some showers over the Mediterranean.

Five-day forecast
The eastern Mediterranean will see heavy rain tomorrow, which will continue into the weekend. Central Europe will have further rain and mountain snow, but it will become generally dry although rather cold this weekend. A growing area of high pressure will lead to a very cold but settled spell across northern Europe.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	20
Accra	Fair	31
Algiers	Sun	17
Amsterdam	Cloudy	7
Athens	Fair	15
Atlanta	Fair	21
B. Aires	Fair	29
B.ham	Fair	6
Bangkok	Sun	35
Barcelona	Sun	16
Beijing	Fair	5
Belfast	Rain	8
Belgrade	Shower	3
Berlin	Rain	3
Bermuda	Shower	20
Bogota	Shower	20
Bombay	Sun	30
Brussels	Rain	8
Budapest	Rain	5
C.hagen	Sleet	2
Cairo	Fair	19
Caracas	Cloudy	29
Cardiff	Rain	8
Casablanca	Fair	18
Chicago	Fair	12
Cologne	Hail	5
Dakar	Fair	24
Dallas	Fair	20
Delhi	Sun	20
Dubai	Sun	25
Dublin	Rain	9
Dubrovnik	Shower	12
Edinburgh	Cloudy	5
Faro	Fair	16
Frankfurt	Hail	6
Geneva	Hail	5
Gibraltar	Sun	18
Glasgow	Rain	5
Hamburg	Hail	4
Helsinki	Snow	-12
Hong Kong	Fair	26
Honolulu	Sun	26
Istanbul	Fair	10
Jakarta	Shower	31
Jersey	Cloudy	9
Johannesburg	Fair	21
Karachi	Sun	25
Kuwait	Sun	18
L. Angeles	Sun	18
Las Palmas	Fair	21
Lima	Fair	28
Lisbon	Fair	14
London	Fair	7
Lux.bourg	Sleet	4
Lyon	Drzzl	6
Madeira	Cloudy	17
Madrid	Fair	13
Majorca	Fair	16
Malta	Shower	15
Manchester	Rain	7
Manila	Fair	31
Melbourne	Sun	27
Mexico City	Sun	18
Miami	Sun	29
Milan	Cloudy	7
Montreal	Fair	18
Moscow	Snow	2
Munich	Thunder	5
Nairobi	Sun	28
Naples	Shower	13
Nassau	Fair	26
New York	Fair	11
Nice	Sun	13
Nicosia	Shower	16
Oslo	Snow	-1
Paris	Shower	8
Perth	Fair	32
Prague	Rain	4
Rangoon	Sun	34
Reykjavik	Snow	2
Rio	Shower	32
Rome	Shower	12
S. Frsco	Fair	11
Seoul	Sun	8
Singapore	Shower	30
Stockholm	Snow	-4
Strasbourg	Rain	7
Sydney	Fair	25
Tangier	Fair	16
Tel Aviv	Fair	18
Tokyo	Shower	11
Toronto	Snow	4
Vancouver	Rain	8
Venice	Shower	5
Vienna	Rain	5
Warsaw	Sleet	2
Washington	Fair	15
Wellington	Fair	19
Winnipeg	Fair	-9
Zurich	Rain	4

FINANCIAL TIMES
COMPANIES & MARKETS
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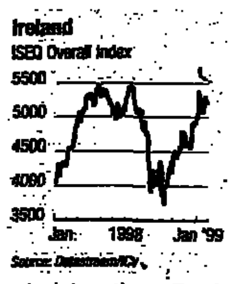
WEDNESDAY JANUARY 27 1999
Week 4

INSIDE

Capitol Hill joins Cargill inquisition
Cargill's proposed acquisition of Continental's grain trading operations, which would unite the world's biggest and second biggest grain exporters, has attracted the attention of the US agriculture secretary, the Justice Department, and the Commodity Futures Trading Commission. Now a congressional sub-committee is examining the deal. **Page 24**

Dublin learns to talk in euros



Source: Datastream/ICV

Ireland has again confirmed its reputation as the European Union's most enthusiastic member, with 84 per cent of listed companies planning to report their 1999 interim figures in euros. By reporting profits and earnings per share in euros, companies make it easier for investors to calculate ratings. Foreign borrowings also make more sense, and US investors can make comparisons with other euro-zone markets. **Page 34**

Bund market 'too small'
The German government bond, or bund, market is too small to support the amount of derivatives based on it, says the Société des Bourses Françaises, operator of the French stock and derivatives exchanges. SBF believes financial institutions could be exposed to large losses, should this shortage of bonds result in big price discrepancies when demand rises. **Page 22**

South African IT groups branch out
Four years ago, Comparex, a South African information technology group, was wholly dependent on business in southern Africa. Now, after a string of acquisitions, it has a market capitalisation of R17bn ($2.8bn), makes 70 per cent of its profits in Europe and is planning secondary stock exchange listings in London and possibly Frankfurt. Its story is typical of South Africa's IT sector. **Page 19**

LIG approach recognises potential
Nick Hodges, London International Group's chief executive, once said his greatest fear was that the company, which makes Durex condoms and Marigold rubber gloves, would be bid for before he had brought out its true potential. Following an unsolicited merger approach, that might be about to happen. **Page 20**

Brazil worries curb investors
Continuing concern about the financial problems of Brazil restrained enthusiasm for global equities. Investors remain concerned that Brazil's problems could spread to the rest of Latin America. **Page 34**

US nut output hit by bad weather
Nut production in the US fell by a quarter last year, partly as a result of bad weather, said the US Department of Agriculture. **Page 24**

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Compaq set to spin off internet search service

Share offering could value AltaVista at up to $2bn

By Louise Kehoe in San Francisco

Compaq Computer, the world's largest personal computer manufacturer, yesterday unveiled ambitious plans to become the leader in internet services, challenging Yahoo! and other first-generation "portal" websites.

Compaq said it would spin *off AltaVista, the internet* search service it bought last year as part of its acquisition of Digital Equipment, and attempt to build it into one of the most popular sites on the world wide web.

In a move to take advantage of the current high valuations of internet companies, Compaq said AltaVista would offer shares to the public – but did not say when. Analysts said the Compaq subsidiary could be valued at about $2bn.

AltaVista is already one of the busiest sites on the web, though ranking below other well known portals such as Yahoo! and Excite. According to Media Metrix, a market research group, AltaVista was visited by almost 20 per cent of web users during December. Yahoo! drew 48 per cent.

However, while Yahoo! and *several* other portals have spent heavily on advertising, AltaVista has yet to be as *widely promoted. With the* spin-off, AltaVista *is* expected to become more aggressive.

AltaVista can also draw on the resources and reach of its parent company. Compaq, whose president and chief executive is Eckhard Pfeiffer, recently began including an AltaVista "button" on the keyboards of its consumer PCs, which takes users directly to the web site. Similar features will soon be included in Compaq's business PCs.

AltaVista users have, on average, been using the internet for more than three years, said Rod Schrock, the newly appointed chief executive of AltaVista and former head of Compaq's consumer products group. These are the people most likely to make purchases on the internet, he added.

AltaVista, which recently expanded its services to include personalised web pages, natural language que*ries and the ability to search* for pictures on the internet, plans to add many more services, Mr Schrock said.

Through a technology agreement with Microsoft, AltaVista will also offer Hotmail, a free e-mail service, and an "instant messaging" service under development at Microsoft.

In addition, Microsoft has agreed to replace the Inktomi technology it offers as the primary search service on the Microsoft Network with AltaVista technology.

Lex, Page 14


Ambitious plans: Compaq chief Eckhard Pfeiffer Picture: Reuters

Microsoft buys stake in second European cable group

By Jeremy Gray in Amsterdam and Paul Taylor in London

Microsoft, the world's largest software group, yesterday made its second move into the European cable television industry this week when it *agreed to buy a $300m (£182m)* stake in United Pan-European Communications (UPC).

UPC, Europe's biggest private cable TV provider, said it would almost double the size of its planned initial public offering next month following Microsoft's backing.

On Monday, Microsoft announced that it would invest $500m in NTL, the third largest UK cable television group, as part of its strategy to accelerate the deployment of high speed voice, data and video services.

Before Microsoft's move the Amsterdam-based UPC said it expected its listing to yield a maximum $680m. Mark Schneider, chairman, said it should now raise between $1.11bn and $1.25bn.

"That includes $800m for the institutional and retail offering, and Microsoft has said it will take $300m," he said.

Like NTL, UPC – which owns cable networks in 10 European countries and in Israel – also said it was teaming up with Microsoft on projects including the delivery of internet-based telephony and other interactive services, *such as digital video to broad*band customers in Europe.

Mr Schneider said Microsoft would become UPC's preferred supplier and play an important role in its plans to provide integrated video, voice and data services. Aside from supplying the "back office" software required by cable operators to offer these services, Microsoft is also trying to establish its Windows CE operating system and WebTV products in the cable market.

UPC, a unit of United International Holdings of the US, also unveiled the terms of next month's listing of 32.5 per cent of its equity on the Amsterdam and Nasdaq exchanges. The offering of 40m shares, comprising up to 17.6m for US institutional investors and the remainder for Dutch buyers, will be sold in a two-week book-building period ending 10 February. The price range is indicated at €24 to €27.

Bakrie moves to restructure debt

By Sander Thoenes in Jakarta

Bakrie & Brothers, the listed arm of the diversified Bakrie Group, has agreed with its main creditors to swap up to $1.15bn in debt for equity, raising the chances of it becoming *the first large Indonesian com*pany to restructure its debt.

Chase Manhattan, American Express Bank and Dresdner Bank were among creditors in Singapore yesterday to agree in principle to swapping $1.15bn in outstanding loans for 80 per cent of a new holding company with shares in five Bakrie companies, including 5.3 per cent of US-listed Iridium. They would also receive 30 per cent of the company's remaining assets.

However, Japanese banks such as Sanwa and Fuji, also lenders to Bakrie, were notably absent from yesterday's meeting. Bakrie said the agreement covered 80 per cent of outstanding debt but declined further comment. Bankers said many details had yet to be negotiated.

"We have agreed in principle – nothing more," one said. "The next step is a meeting of all the creditors, possibly in early February." Late last year Indonesia cleared some legal and tax hurdles for restructuring but differences over restructuring terms have held up agreements with big debtors such as Astra International, which was well into negotiations.

"This would be the first big *one [Indonesian company],"* said one western banker with exposure to Bakrie. "I don't think we have much choice. Bankruptcy is not working, despite a new bankruptcy law. Many western banks have been taking provisions over the past year, so they might as well start writing off loans."

One banker said it was doubtful the creditors would get more than 20 cents to the dollar, as many of Bakrie's subsidiaries were in trouble and newly listed shares of the planned holding company would not be very liquid.

In addition to the stake in Iridium, worth some $120m, the new holding company would own a majority in Bakrie Sumatra Plantations, Bakrie's most profitable company, a 20 per cent stake in Aruthmin, a coal mining venture with BHP of Australia, 70 per cent of Bakrie Electronics, 99.9 per cent of the troubled Bakrie Pipe subsidiary and 20 per cent of Bakrie Kasei.

UNILEVER AND JOHNSON & JOHNSON TO LAUNCH RIVAL PRODUCTS

FDA approves spreads that reduce cholesterol

By John Willman, Consumer Industries Editor

The US Food and Drug *Administration has told* Unilever and Johnson & Johnson they can launch new types of spread that reduce cholesterol in the bloodstream. But the two companies may be restricted in the health claims they can make for the much hyped products.

The decision, under a new procedure that requires the companies only to demonstrate the products are safe, could clear the way for a high-profile marketing battle between the new spreads, said to cut the risk of coronary heart disease by up to a fifth.

Plans for their launch were previously put on hold after the FDA ruled they required formal approval – often a lengthy process.

The new procedure requires companies launching new foods to lodge a certificate that they are "generally recognised as safe" (GRAS) with the regulator at least 90 days before launch. However, approval under this procedure does not allow the company to circumvent regulations on health claims. This means the companies are unlikely to be allowed *to promote the health benefits* of the new spreads without submitting to the lengthier process needed before such claims are allowed.

The two companies have been racing to launch their spreads – which contain naturally derived ingredients that reduce cholesterol levels – in the US market. McNeil Consumer Products, a J&J subsidiary, looked set to be first with Benecol, a spread produced by Raisio, the Finnish food and chemicals group.

Both companies have welcomed the FDA's decision to adopt the GRAS procedure and promised to work closely with the regulator to launch the two spreads.

But Raisio shares fell €1.90 to €7.60 in Helsinki amid fears that sales would be held back if health claims could not be used in marketing. "Without the possibility of using health claims in marketing, shelf space will be minimal," said one broker.

However, McNeil said it believed consumers would be *aware of the benefits of its* cholesterol-busting spread. "Medical and dietary experts recognise that Benecol is a real contribution to public health," it said.

Under the GRAS procedure, the FDA has 30 days to raise concerns with the companies, according to Joseph Levitt, director of its centre for food safety and applied nutrition. It must complete its evaluation within 90 days of the certificate of safety being lodged.

Unilever's spread is close to regulatory approval in the European Union, having been approved by the Dutch novel foods regulator in December. EU member states have two months to make comments on the proposed introduction of the margarine.

Benecol needs no EU approval, having been on sale in Finland before Brussels introduced the novel foods legislation.


BARRY RILEY

If beta flags, try alpha

Are the markets uncomfortably high? A lot of institutional investors fear so. After an excited start to the year the main US indices have slipped back to more or less where they started. The same applies to London's FTSE 100.

The conditions could be right, therefore, for long-short strategies to make progress. They have already made a moderate impact in the US – if more on endowments than *pension plans – and now there* is news of the award of a mandate in the UK. Caparo, the Midlands metals group, has appointed State Street Global Advisors to run a market-neutral strategy.

This is a modest contract in scale, a 10 per cent allocation from a fund worth under £200m ($330m). But the much bigger Zeneca fund is said to be considering an allocation to a comparable non-traditional strategy.

Quite a few UK pension plans are on the lookout for something different. This is partly because many of them have become disillusioned with the performances of the dominant traditional managers. And they are not persuaded that simply switching to another balanced manager will solve the problem of disappointed expectations.

More fundamentally though, there are doubts about future market returns. True, it has been tremendously profitable to be "long only" when over the past 10 years average annual returns have ranged from 19 per cent on US equities and 15 per cent on UK equities to about 12 per cent on UK bonds.

Pension funds have had no difficulty in achieving their target return of about 6 per cent real.

From this point in time, however, future returns look more problematical. Real returns on long gilts are only *about 2 per cent.*

On the formula of dividend yield plus trend economic growth, the prospective real return on UK equities is 4½-5 per cent against the achieved 8 per cent over the past 80 years.

Conceivably, the good times could roll on for another year or two. But more funds are ready to look at alternative strategies for the long run.

Long-short strategies are not always completely symmetrical, because they are often net long, but a market-neutral formula has been chosen by Caparo.

In the jargon, the approach accumulates alpha, or stock specific returns, and excludes beta, the market return, which arguably can be more economically captured by *index-tracking funds.*

Moreover, by running short as well as long positions, the manager can double up the alpha for the same money. This is wonderful – so long, of course, as the alpha is positive. If it is negative the losses will mount.

State Street is running the strategy in the US stock market (though it is working on a UK version). The aim is to beat the US Treasury bill return by 5-7 per cent a year. Comparable US hedge fund managers have achieved an average return of 14 per cent during recent years.

Plainly many other approaches – including index-tracking – have achieved much more, but this *is an absolute return strategy* designed for hard times.

Will such strategies catch on? Leading UK investment consultants like Watson Wyatt recommend that pension schemes should diversify part of their funds into alternative investment styles, including specialist niche products.

Whether UK trustees can take on board the full mumbo-jumbo of "portable alpha" and "absolute return" is another matter.

Using familiar relative performance measures, trustees have been able to gain the comfort of the herd. Absolute returns are designed to be steady; however, they will be very volatile in relative terms, both against the market indices and the peer group.

Very sophisticated monitoring will be required and not just the simple top quartile-type approach.

If only the stock market would continue to return 15-20 per cent a year indefinitely. That would make life a lot simpler.

DISCOUNT BROKING CANADIAN INSTITUTION HOPES TO CAPITALISE ON RISING PRICES

Toronto-Dominion Bank ponders offering

By Edward Alden in Toronto

Toronto-Dominion Bank is considering a public offering of shares in its discount brokerage, the world's second largest, to capitalise on rising prices for shares of discount brokers such as Charles Schwab.

It is the first big strategic initiative by any of Canada's big five banks since their merger plans were thwarted by the government last month.

Charles Baillie, TD chairman and chief executive, said yesterday the bank was "exploring the potential" for a limited public offering of shares, likely to be less than 20 per cent of the equity. The brokerage includes Waterhouse Investor Services, the third largest discount broker in the US, and Green Line, Canada's largest.

Analysts have estimated the value of TD's discount brokerage business at C$7bn (US$4.6bn), based on a multiple of 50 times historical earnings. Schwab, which is TD's main rival and follows a similar business model, has been trading at multiples of up to 75 times earnings.

Canada's other banks are expected to look for similar expansion opportunities in the wake of Ottawa's rejection of the mergers.

Four of the country's five largest banks had proposed two separate mergers, arguing that they needed greater size to expand in the US and resist foreign competition at home. But the federal government said the proposals would have created excessive concentration in the domestic banking industry.

Duncan Gibson, TD vice-chairman, wealth management services, said yesterday it was likely the proposed share offering would be on US and Canadian exchanges. The bank has informally discussed the proposal with US underwriters but has not entered into any formal arrangement, he said.

Mr Gibson said a share offering would enhance flexibility to make future acquisitions, particularly in the US. Since purchasing Waterhouse for C$725m in 1996, TD has bought five other discount brokers in the US, UK and Australia.

Hugh Brown, banking analyst at Nesbitt Burns, said the proposal was sound. "The valuations being put on this particular business at this particular time are very attractive," he said. "You crystallise value at an opportune time and you create an acquisition currency."

TD shares have outperformed other Canadian banks, largely on the strength of the valuations given to its discount brokerage arm. Maria Bellantoni, analyst with Levesque Beaubien, said it was likely the rest of the bank's operations were undervalued, and that spinning off the discount arm could also boost the market value of TD's other businesses.

TD shares rose 50 cents to C$60 in early trading yesterday.

Tenneco sale to help reduce debt

By Nikki Tait in Chicago

Tenneco, the US automotive and packaging group, yesterday announced it was selling its container-board business for $2.2bn. It described the move as "enabling" – allowing it to pay down debt and proceed with acquisitions or other deals to enhance the remaining business units.

The business is being sold to Madison Dearborn Partners, a Chicago-based investment group. Tenneco is to retain a 45 per cent equity interest in the operation, which it said was valued at about $200m. Dana Mead, Tenneco's chairman, suggested that the business might ultimately be floated through an initial public offering.

He said proceeds from the sale would help reduce debt. The consequently stronger balance sheet would free the group to pursue its aims for its automotive and specialty packaging businesses. "I've said we are looking for acquisitions which extend our product lines," he said.

Tenneco first mooted splitting its packaging and automotive operations, or divesting main operations, in 1998. The container-board unit had revenues of about $1.5bn last year, and a 6 per cent domestic market share. It will be renamed Packaging Corp of America and be headed by Paul Stecko, who will step down as Tenneco's president.

More recently, Tenneco has been mentioned as a potentially interested acquirer of LucasVarity, the UK components manufacturer which has received bid overtures from Federal-Mogul and another unidentified company, widely thought to be TRW, another US manufacturing group. However, Mr Mead said: "It really doesn't have any direct impact on us – but it will change the competitive environment, depending on who lashes up with whom."

News of the sale came as Tenneco reported fourth-quarter losses of $60m after-tax, against $30m profits last time, after a $46m accounting-related charge. The result came after a $100m pre-tax charge for restructuring operations, one-third of which is going to the automotive operations. Tenneco said this should result in overall savings of at least $135m a year. Ahead of charges, it said that quarterly earnings per share were 2 cents, against 44 cents, on sales of $1.9bn.

The company had warned that it would not achieve expectations, but Wall Street had anticipated underlying earnings of 8 cents.

Tenneco shares slipped ⅛ to $33¼.

Raytheon rise meets forecasts

By Christopher Parkes in Los Angeles

Raytheon met market expectations with a 51 per cent increase in net income to $369m in the fourth quarter of 1998, and ended the year with its debt burden down 12 per cent at $8.6bn.

The aerospace and engineering group, which recently started a fresh round of job cuts and restructured its civil engineering arm, said earnings per diluted share for the quarter, of $1.08, were achieved on record revenues of $5.8bn. Excluding special charges in the same period of 1997, sales and operating profits surged 36 per cent and 73 per cent respectively.

Daniel Burnham, chief executive, said plans to increase US defence spending were expected to benefit the company, which is strong in areas targeted by the Pentagon, such as defence missiles.

Sales in defence and commercial electronics rose 48 per cent, while operating income more than doubled to $658m. Engineering and construction revenues were flat at $657m, though operating profits fell 24 per cent to $22m. Income from aircraft dropped 9 per cent to $81m, but sales increased 22 per cent.

PwC maintains growth

By Jim Kelly, Accountancy Correspondent

PwC, the professional services firm created last year, yesterday issued the merged business's first results, showing annualised 34 per cent growth in management-consulting revenues in its first six months.

The results indicate that PwC's strong combined results for 1997-8 – total revenues up almost 20 per cent at $15.3bn – are being broadly sustained after the merger. Management consulting last year grew at 41 per cent to $3.9bn.

"During consolidation the big get bigger. Three years ago I would have said growth rates like this were impossible," said Scott Hartz, global head of management consulting. PwC was formed by a merger on July 1 last year.

The so-called Big Five firms do not usually disclose profitability, but Mr Hartz said profit margins, which were "double digit", were holding up. Profit per partner, the key indicator, was increasing as each partner became responsible for larger "pyramids" of staff.

At present PwC's management-consultancy practice has 1,200 partners and 26,000 staff but Mr Hartz said that about 1,000 new staff were being hired every week.

In 1997-8 the highest growth levels were in Germany, at 55 per cent, and France, at 45 per cent, he said, and that trend had continued. "It's the push for globalisation – there is a bit of catching up to do, and there's the euro," he said.


Scott Hartz: 34 per cent growth in management consultancy

The US saw 38 per cent growth after the merger, and the UK 30 per cent.

Mr Hartz said the growth of PwC's management consultancy showed that offering the service from within a professional firm was more efficient than splitting off the business.

He confirmed that PwC intended to keep the practice within the firm. Andersen Consulting, its biggest rival, is separate from Arthur Andersen. The two sister firms are locked in an acrimonious demerger.

"We have learnt from the mistakes of a key competitor," said Mr Hartz. Systems were being developed to ensure management-consultancy partners were properly rewarded: "Just because it's a partnership does not mean all partners get the same amount," he said.

NEWS DIGEST

COMPUTING

IBM shares lifted by stock split

International Business Machines, the US computer group, yesterday declared a two-for-one stock split, its first since 1997 and just a day after Microsoft announced its own split. The move would increase the number of authorised common shares to 4.69bn, and IBM shares rose $3¼ to $185¼ in early New York trading. A split had been widely anticipated since IBM's shares rose 76 per cent in 1998 before hitting a 52-week high of $199¼ last week. IBM then reported lower-than-expected sales growth in its fourth quarter, and the shares dropped $17¼ last Friday. IBM expects the record date for the split to be May 10, with distribution on or about May 26. **AP-DJ, New York**

MACHINERY

Case sees sales downturn

Case, the US manufacturer of construction and farm equipment, yesterday forecast an 8-10 per cent decline in worldwide sales of agricultural equipment in 1999 and a 2-5 per cent decline in construction equipment sales, warning that the outlook for its markets was "decidedly mixed".

The comments came as the group tumbled into the red in the final three months of 1998, with a net loss of $196m, compared with last time's $121m profit, on sales down from $1.75bn to $1.5bn. Part of that was due to a $96m charge to cover the loss of about 2,600 jobs and the closure of two plants. Case said it expected a further charge in 1999 of about $30m-$40m for about 800 redundancies. The fourth-quarter result translated into losses per share of $1.37. Although higher than the consensus forecast of about $1.27, Case said the result reflected accounting factors and the underlying result was in line with market expectations. Case shares eased $¼ to $20⅞ in early trading.

Jean-Pierre Rosso, chairman, said the economic troubles in Brazil were more likely to affect Case's construction equipment than its agricultural equipment division, particularly if local interest rates remained at current levels. But he said the company had no intention of delaying investment plans in the region. **Nikki Tait, Chicago**

OIL

Texaco tumbles to $213m loss

Texaco, the fourth largest US oil company, yesterday posted a fourth-quarter net loss of $213m, or 43 cents a share, after net special charges of $305m. This compares with net income of $623m, or $1.12, for the fourth quarter of 1997, after net special benefits of $151m. Operating earnings of $92m, or 15 cents a share, were down from $472m, or 85 cents, in the year-ago period, but were in line with analysts' expectations.

For 1998, income before special items declined 50 per cent to $894m, or $1.59 a share, down from $1.89bn, or $3.45, for 1997. However, net special charges of $316m to cover the drop in the value of oilfields and oil product inventories reduced 1998 net income to $578m, or 99 cents – a sharp reduction from 1997 net income of $2.67bn, or $4.87, after net special benefits of $770m. **Reuters, New York**

Drug groups' results on target

By Tracy Corrigan in New York

Four more US pharmaceuticals and healthcare companies yesterday reported fourth-quarter earnings in line with analysts' estimates.

Merck's net earnings of $1.4bn were up 13 per cent, while Johnson & Johnson reported earnings of $693m – up 10 per cent before special charges.

Viren Mehta, analyst at Mehta Partners, said J&J had exceeded top-line growth expectations, with sales up 13.1 per cent to $6.3bn.

Ralph Larsen, J&J chairman and chief executive, said he was pleased with "double-digit earnings growth and improved operating margins despite a year of severe economic turmoil and protracted negative currency impacts". There was a $610m charge for reconfiguring its manufacturing network and for research and development costs associated with its acquisition of DuPuy.

Schering-Plough reported net income of $419m up from $343m, fuelled by strong drugs sales growth. American Home Products beat estimates by 1 cent, with earnings per share of 44 cents before an after-tax charge. But the company reported a 1 per cent fall in sales to $3.2bn. Pharmaceuticals sales fell 6 per cent due to divestments, drug withdrawals and competition from generic drugs, AHP said. Consumer healthcare sales rose 10 per cent and agricultural product sales rose 13 per cent.

Coca-Cola stays upbeat

By Richard Waters in New York

Douglas Ivester, chairman of Coca-Cola, yesterday declared the US soft-drink maker's global business to be stronger than ever – despite news that its revenues and earnings had fallen last year for the first time in memory.

Coca-Cola's long global expansion, which had enabled it to deliver an unbroken string of improved earnings, came to an end as revenues slipped by $55m to $18.8bn in 1998. After-tax profits for the year fell 14 per cent to $3.53bn, with earnings per share slipping 13 per cent to $1.42.

The news had been expected. The company warned in December that the turmoil in emerging markets would leave it with sharply lower profits for the final quarter of 1998, capping a difficult year.

Revenues in the fourth quarter fell 5 per cent to just under $4.5bn, while net income fell to $597m and earnings per share fell to 24 cents – both 27 per cent declines.

Mr Ivester, completing his first full year as chairman, called 1998 "a challenging period", as economic slowdowns in a number of overseas markets had had a "short-term impact, slowing volume growth and affecting our earnings".

He claimed, though, that the long-term growth picture for Coca-Cola had not changed at all, and that the company's business "remains very healthy throughout the world". Each of the company's operating groups had maintained or increased market share, while big investments had left the company's global system "far more capable and stronger".

Despite Mr Ivester's claims, Wall Street maintained a cautious view. Coca-Cola's shares fell $1⅜ to $61¼ yesterday morning, or about 30 per cent below the record they hit last year.

The company's case volumes grew by an underlying 3 per cent in the final quarter of last year, after taking into account the different number of trading days in the quarter, and 6 per cent for the year as a whole, to 16bn cases. In the fourth quarter, North American volume growth held up at 5 per cent, while Latin American growth was 3 per cent and Europe 2 per cent.

Nortel lifted by Bay buy

By Scott Morrison in Toronto

Nortel Network's fourth-quarter results beat expectations, with analysts saying they indicated the Canadian communications networking group was successfully integrating the recently acquired Bay Networks.

Quarterly revenues in its enterprise networks unit, which included most of Bay's data networking revenues, increased by 63 per cent.

John Roth, Nortel chief executive, declined to break down results from Bay, but said the "bulk" of the increase was provided by Bay, the US data networking group acquired last year for about US$7bn.

"The results indicate that integration is proceeding better than we expected," said one technology analyst. This was the first full quarter in which Bay results were included within Nortel's figures.

Analysts had been keen to see whether Bay would produce strong enough results to offset the dilution of Nortel's earnings forecast at the time of the acquisition.

They were bullish about Nortel's growth prospects for 1999, once Bay had overcome the disruption of being integrated into the Canadian company.

A big challenge, said Mr Roth, had been to establish new sales channels for its products which were previously distributed by Nortel rivals Lucent and Alcatel. He forecast that 1999 revenues would grow by more than 20 per cent, beating the industry average of about 15 per cent.

Fourth-quarter earnings, not including special items, rose 24 per cent to US$477m, or 72 cents per share.

Analysts had expected earnings of 70 cents. However, acquisition-related costs of US$820m left Nortel with a fourth-quarter net loss of US$341m, or 51 cents per share. The costs were mainly related to the Bay acquisition.

Revenues for the three months increased 20 per cent to US$5.8bn.

Nortel shares fell last autumn to less than C$50 when the company forecast slower growth in third-quarter revenues.

Yesterday they were up C$2.40 to C$86.50 in midday trading, following a C$2.80 rise on Monday.

Kitchens revamp hits McDonald's

By Nikki Tait

The costs of revamping its kitchens affected the fourth quarter and full-year profits at McDonald's, the fast-food chain.

But the underlying earnings increase of about 10 per cent in the final quarter and a similar figure for the full-year was in line with Wall Street expectations. Jack Greenberg, chairman, said yesterday the company would continue growing operations in all markets – although he conceded that some overseas countries remained difficult.

The group would add about 1,750 outlets in 1999 – slightly more than the 1,668 in 1998 – and primarily outside the US.

In the fourth quarter, McDonald's' after-tax profit slipped from $410.9m to $348.5m, but that came after a $148m pre-tax charge for the food preparation changes. Earnings per share were up 10 per cent, from 58 cents to 64 cents, with net income reaching $447. Revenues were 9 per cent higher at $3.22bn. Full-year earnings were $2.52 ($2.29).

At the operating profit level, the strongest growth came in Europe (up 17 per cent in the final quarter). In the US there was a slower 11 per cent increase in the final quarter. Latin America saw a 17 per cent increase in operating profit in the final three months. Asia-Pacific posted an 11 per cent improvement. The shares surged $4 to $79¾ on the news.

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NEWS DIGEST

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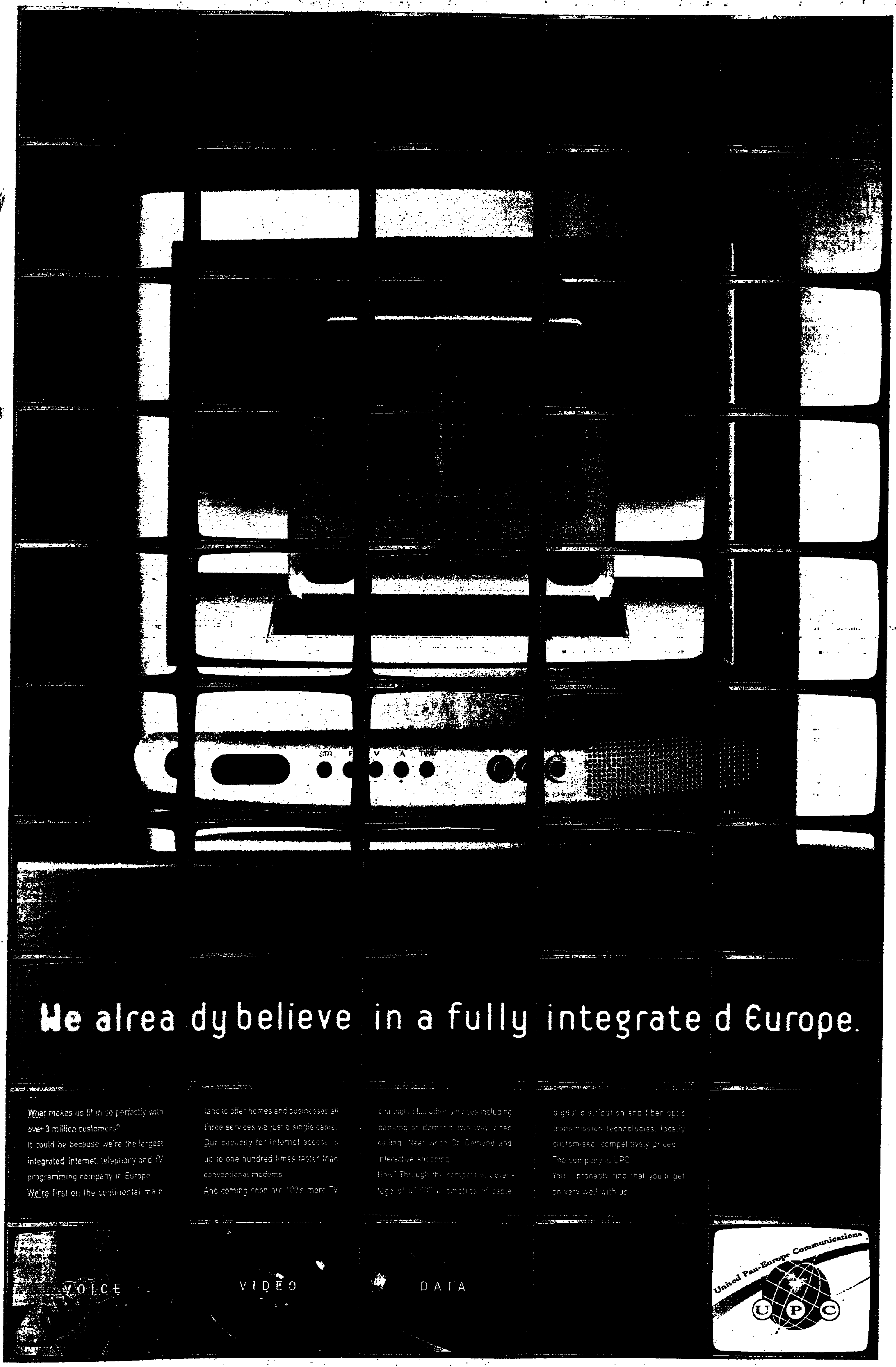


COMPANIES & FINANCE: ASIA-PACIFIC

BANKS DECISION PUTS PHILIPPINE INSTITUTION IN RED BUT ANALYSTS PRAISE IT FOR 'BITING THE BULLET'

PNB unveils heavy provisions to tackle bad loans

By Tony Tassell in Manila

Philippine National Bank, one of the country's largest, has started the long-awaited clean-up of its troubled balance sheet, reporting heavy provisions yesterday for non-performing loans.

The government-controlled bank, considered one of the largest problems in the Philippine banking system, made provisions of 10.3bn pesos ($265m) in its 1998 results.

The decision saw the bank dive into the red in 1998 with a net loss of 5bn pesos, but analysts said it indicated PNB was at last "biting the bullet" and cleaning up its balance sheet ahead of the planned sale of government's 45.6 per cent stake over the next 18 months.

At the operating level, net income was 1.1bn pesos before taxes.

Ismael Pili, analyst with Indosuez WI Carr, said the higher-than-expected loan provisions were "heartening", as they signalled PNB had at last recognised the extent of its problems instead of window-dressing its accounts. He added that PNB's balance sheet remained a source of concern.

While the Philippine banking system is in better financial shape than most of its regional peers in the wake of the Asian economic crisis, PNB has been a troubled exception.

Its non-performing loan ratio in November was 14 per cent, higher than the average for the industry's 53 commercial banks of 11.97 per cent. Bank officials have since indicated that the non-performing ratio has risen to about 16 per cent.

Mr Pili said, however, that the ratio did not take account of foreclosed loans or loans under restructuring. If these were added, the NPL ratio would rise to 29 to 30 per cent.

The non-performing loans represent a legacy of poor lending by PNB, which has often been seen as a conduit of cronyism. The bank's problems are such that the International Monetary Fund singled out the bank's reform as a condition for the government's borrowing programme. Under the IMF agreement, the government stake in PNB has to be sold by July next year.

Benjamin Palma Gill, president of PNB, said yesterday that the bank would also raise 10bn pesos in tier-one capital before the end of the second quarter "to put the company on a more competitive footing".

Analysts said PNB would need to raise capital quickly to meet the minimum capital adequacy requirements of the central bank.

Nick Cashmore, analyst with ABN Amro, said that on the assumption the bank's non-performing loans had risen to 16 per cent since November, PNB would have a capital-adequacy ratio of about 8.2 per cent at the end of 1998 compared with a regulatory minimum of 10 per cent.

He said that if the bank raised 10bn pesos in tier-one capital, its adequacy ratio would rise to about 13 per cent. However, PNB needed to make substantial further NPL provisions.

Mr Cashmore said the 10.3bn in loan provisions announced yesterday compared with non-performing loans of about 19.6bn, excluding foreclosed loans and loans under restructuring.

"The loan provisions are a step in the right direction but there is still some way to go," he said.

Bargains fail to fire in battle against recession

Japanese retailers are trying to lure customers with price cuts but it is a risky strategy, writes **Alexandra Harney**

On the first floor of a department store in central Tokyo, a man in a red and black striped jacket is shouting and holding up black leather purses. "Authentic Italian handbags at big discounts – get them now before they disappear!" A crowd, mainly older housewives in thick winter coats, picks through the rapidly shrinking pile with keen determination.

Welcome to the retail battleground of Japan's longest post-war recession. As rising unemployment and falling incomes have kept consumers at home, retailers have been cutting prices by 5 to 20 per cent and awarding customers discount coupons in an effort to lure them back.

Some have been scrambling to revive stagnating cash flows by closing unprofitable stores and selling the property to the highest bidder.

Last December, Tokyu Department Store, a member of the Tokyu industrial group, announced it would shut its flagship store in Nihonbashi, not far from Tokyo railway station. Similarly painful moves by Mitsukoshi, the second-largest department store, underscore the depth of the crisis in Japan's retail sector.

For consumers, the recession looks like a good bargain. At the Tokyu store, two middle-aged women pause doubtfully in front of a mountain of handbags from European and Japanese designers. When asked if they were shopping often, both covered their mouths in embarrassment. "God, no. I don't have any money!" one exclaimed.

The danger for the Japanese economy is that the price cutting could push the country deeper into recession.

Lower prices have not been matched by increased sales volumes, and have brought some retailers closer to bankruptcy.

At Daiei, the country's leading supermarket, sales fell during its three price-cuts campaigns in November, December and January, according to a report by Salomon Smith Barney. Although turnover jumped 60 per cent during one campaign at Ito Yokado, the supermarket chain, results at successive sales were considerably less impressive.

"The problem is that people bought six months of underwear and they are not going to buy it again for four or five months," says Mike Allen, retail analyst at ING Barings. He believes the sales threaten to choke retailers' cash flow if the discounting continues.

Retailers are already in a difficult position. Sales at department stores and supermarkets have fallen steadily every month for nearly two years on a year-on-year basis.

The Japan Chain Stores Association reported this week that sales at supermarkets fell 0.2 per cent against the previous year, the first yearly drop since records began in 1976. Sales fell 2.2 per cent in December alone, it said.

Department store sales were also down 5.5 per cent year-on-year last month, according to an industry group.

The prolonged downturn has devastated retailers' balance sheets. Daiei, which posted losses of Y983m ($8.6m) in the first six months of 1998, had liabilities of Y2,600bn in February 1998 – equivalent to 20 times equity, according to Byron Gill of Salomon Smith Barney. Last week's resignation of Isao Nakauchi, Daiei president, who had run the company for 40 years, is evidence of the pressure banks are putting on retailers to clean up their balance sheets, analysts say.

While most indicators suggest that prices are still fairly stable, economists say the worst may be yet to come. The combination of the strengthening of the yen since last October and dismal corporate earnings is putting additional downward pressure on prices.

"While a range of things are supporting prices right now, there are risks on the downside, and maybe towards March there could be increased pressure [on prices] as financial institutions move to shore themselves up," says James Malcolm, economist at J.P. Morgan in Tokyo.

With consumers counting their yen and waiting for the next bargain sale, a recovery in the Japanese economy this year seems increasingly unlikely.

Begging a bargain: shoppers at the Tokyu Department Store in Nihonbashi, which is closing Reuters

Piltel suspends debt payments

By Tony Tassell

The outlook for Pilipino Telephone appeared bleak yesterday after the country's second largest cellular telecommunications operator revealed it had suspended payments on its 34bn pesos ($877m) of debt.

Piltel, 58 per cent-owned by Philippine Long Distance Telephone, said that it had suspended payments on its debt burden on January 6 and was seeking a financial restructuring to stay afloat.

The move is likely to cause embarrassment at First Pacific, the Hong Kong conglomerate that recently took a controlling stake in PLDT. Although PLDT has not guaranteed any of Piltel's debt, analysts said the country's dominant fixed line provider was coming under pressure to provide some support to its subsidiary.

Michael Lonergan, Piltel chief financial officer who joined the company after First Pacific acquired the PLDT stake, said the HK conglomerate had been surprised by the extent of the problems. He admitted that it had not carried out due diligence on Piltel as the PLDT acquisition had been hostile.

He said that Piltel was not yet technically in default on its debts but soon would be. "Effectively, payments on all debt are now suspended," he said.

Mr Lonergan said the 34bn pesos in debt was split roughly equally between bank loans, convertible bonds and a debt to Marubeni, the Japanese conglomerate. Piltel would not be able to make a payment to Marubeni due on Thursday. The next payment on the convertible bonds is due in July.

Piltel began discussions with creditors last week and hopes to show First Pacific a business revival plan before the Hong Kong group makes a decision on any further investment in the company.

Neel Sinha, vice-president at SG Securities, said creditors would have little choice but to accept some form of debt restructuring.

"It will be very hard for creditors to walk away, given the depressed market for second-hand transmission assets," he said.

John Noe Ravallo, chief economist with the Bankers Association of the Philippines, said Piltel's suspension of debt repayments would have little impact on the country's banking system.

He said the bank-loan proportion of the 34bn pesos in debt would account for at most 0.7 per cent of outstanding loans in the banking system.

Moody's drops Mazda to junk bond status

By Alexandra Harney in Tokyo

Japan's battered auto industry was dealt another blow yesterday when Moody's, the US credit rating agency, lowered its rating on Mazda's long-term debt to junk bond status.

The rating change from Baa3 to Ba1 marks the first downgrade of a Japanese carmaker to speculative status. Moody's is also reviewing Mazda rivals Nissan and Mitsubishi Motors, both rated Baa3. Last year it downgraded Toyota from Aaa to Aa1.

Moody's said the move was prompted by concerns about Mazda's high gearing and problems at its dealership network amid a deteriorating domestic car market and financial system. Mazda was unlikely to be able to reduce the considerable debts at its dealerships with higher sales, it said.

The car group is 33.4 per cent owned by Ford Motor of the US. However, this relationship offered Mazda no protection from interest rate increases and the turmoil in the financial system because the US carmaker would not take responsibility for Mazda's debt burden, Moody's said.

The rating includes Mazda's euro bonds, Japanese bonds and shelf registration worth $2.8bn, said Takahiro Morita, senior vice-president of corporate finance at Moody's in Tokyo.

Analysts said the downgrade was unnecessarily harsh, given the progress Mazda has made in recent years in reducing its interest-bearing liabilities and lowering costs.

Mazda was particularly sensitive to currency rate fluctuations because of its heavy dependence on the US market, they said.

Mazda recorded the smallest sales decline of any Japanese carmaker last year and expanded its market share despite the largest collapse in car sales since industry records began.

It expects to post its first consolidated profits in five years in the year ending in March.

Mazda's net debt to equity ratio is down from a high of 303 per cent in 1994 to about 178 per cent this year, according to HSBC Securities and company reports. Analysts said that it was unlikely to have trouble meeting its interest obligations because of its improving cashflow.

The shares climbed 1.5 per cent to Y462 after the downgrade was announced.

James Miller, Mazda president, said last week that a downgrade by Moody's would not affect its restructuring plans.

Cost cuts help Petron into black

Petron, the Philippines' largest oil group, returned to the black for 1998 with net income of 3.7bn pesos ($96m), compared with a loss of 631m pesos the previous year, writes Tony Tassell.

The performance was at the top end of market expectations, and analysts said the turnround reflected the benefits of cost cuts, the stabilisation of the peso and fall in crude-oil prices.

Sales revenue, however, slipped from 61bn pesos to 59bn pesos. This reflected a 6.4 per cent fall in sales volume, from 61.4m barrels to 57.5m barrels.

Gasoline and LPG sales continued to grow, but demand fell from crisis-hit industrial customers, notably airlines.

The group also announced capital expenditure worth 2.1bn pesos in 1999 and declared a dividend of 20 centavos per share.

Japan 'premium' falls despite rating gloom

By Gillian Tett and Julie Hess in Tokyo

The Japan premium, or the extra price that Japanese banks need to pay to raise money in international markets compared with US rivals, fell yesterday even though several banks were downgraded by Moody's, the rating agency.

The decline left the premium running at around 20 to 50 basis points, less than half its level last autumn, traders said yesterday.

The swing hints at rising confidence in the banking sector fuelled by new signs of government reform.

In particular, some investors and consumers have been encouraged by hints that the banks are starting to tackle their long-running problems through mergers, bad loan write-offs and equity issues.

The Financial Supervisory Agency, Japan's banking watchdog, yesterday indicated that it would impose tougher bad loan reserve requirements this spring.

Banks will be forced to make reserves worth 70 per cent for risky "class three" loans to borrowers that have defaulted. They will also need to make 15 per cent reserves for "class two" loans, which include borrowers yet to default but in financial trouble.

The banks have reserve ratios of only 52 per cent and 1.6 per cent for these loans respectively, so tightening the requirements will force banks to raise even more capital.

However, the Nikkei newspaper yesterday reported that the banks would issue an extra Y2,000bn ($17.5bn) worth of additional equity this year. The banks are also expected to apply for at least Y6,000bn worth of public funds to boost their capital bases.

Some analysts fear these reforms may do little to help boost the banks' profits. Moody's yesterday downgraded the credit ratings of Bank of Tokyo-Mitsubishi, Sanwa Bank, Sumitomo Bank and Toyo Trust, due to the deterioration of the asset quality, poor profitability and erosion of the banks' economic capital.

The downgrading is part of a series of credit reviews in the banking sector by Moody's. Mitsubishi Trust, Dai-Ichi Kangyo Bank and the Industrial Bank of Japan have been downgraded this year. Mitsui Trust, Tokai Bank and Asahi Bank are under review.

Moody's warned that despite the progress made by the banks to clean their balance sheets of non-performing loans, the increasing number of borrowers with financial troubles creates new problem loans.

The stock market seemed unaffected by the news. BTM gained Y16 to Y1,370, Sumitomo was up Y17 to Y1,413, Toyo Trust rose Y2 to Y333, while Sanwa Bank lost Y7 to close at Y1,075. The bank sector has been a strong performer in past weeks, with investors enthusiastic about the announcements of mergers and tie-ups in the industry.

مكذا من الاصل

TECHNOLOGY GERMAN SOFTWARE GROUP STRIVES TO OVERCOME JAPANESE DISAPPOINTMENT

SAP shares rise on hopes of Asian growth

By Uta Harnischfeger in Frankfurt

Shares in SAP, the German software group that is a bellwether for Europe's technology sector, yesterday rose 5.7 per cent after it said it hoped it could grow in Asia this year.

The development came as a relief after the company shocked the market earlier this month with bad news from Japan. SAP is the world's largest provider of business management software.

The company said its four-year sales and profit figures were almost fully in line with its January forecast. Group sales rose by 41 per cent from DM6.01bn in 1997 to DM8.47bn (€4.33bn, $5bn) in 1998 and net profit rose 14 per cent from DM924m in 1997 to DM1.05bn in 1998.

SAP had earlier forecast that, due to a DM200m fourth-quarter loss in Japan, four-year profit growth would be lowered to 15 per cent from 30 to 35 per cent predicted in October last year.

Yesterday's report sparked buying particularly among those investors who had wanted to wait and see whether SAP had more bad news.

Analysts are nevertheless worried that SAP's software sales are losing momentum. The quarterly breakdown showed that SAP only sold 2 per cent more software licences and new software releases in the last three months compared with the fourth quarter of 1997. They focus on this because product sales are SAP's "bread and butter" business, compared with training and consulting, which depends on licensed sales.

The group said that it was not yet experiencing any negative effects from slowdowns in Europe and North America. "On the contrary, we are seeing the opposite development and a lot of investments in software, chips and personal computers," said Hasso Plattner, chief executive, referring mostly to North America, which is SAP's biggest single market outside Germany.

Mr Plattner noted good recent earnings data from Intel and Microsoft. In 1998, SAP sales grew 28 per cent in the Americas, 20 per cent in Europe and Africa but declined 22 per cent in the Asia Pacific region.

Referring to the recent slowdown in Japan, where roughly two-thirds of all orders were cancelled in the fourth quarter, Mr Plattner said that he had "never before seen such a complete halt of investments. Now we have to wait until the likes of Mitsubishi and Toyota start investing in software again."

In January, SAP said it was hopeful that it would get the cancelled Japan orders later.

IPO is launched for Air France

By David Owen in Paris

The French government yesterday launched the partial privatisation of Air France, indicating that more than 17 per cent of the national carrier's capital would be floated in coming weeks.

Pre-placement begins today and is set to last until about February 9. The government, which stands to raise some FFr4bn (€609m, $716m) from the long-awaited sale, said the price range for institutional investors could be between €12 and €14.2.

All told, a series of operations could cut the French state's stake in the airline to 53 per cent in due course.

Last night's announcement came as it emerged that the planned stock market flotation of a 20 per cent stake in the company to be formed by the merger of Aerospatiale, the state-controlled French aerospace group, and the defence interests of Lagardère is now unlikely to be completed before May.

This assessment came from an individual involved in top-level talks between Lagardère, the private-sector defence-to-publishing company, and the French government aimed at finalising an agreement.

The individual involved in the Lagardère talks also indicated, however, that another important detail of the planned sale had been resolved: the initial public offering will include the shares in the new group held by Consortium de Réalisation, the state-backed vehicle set up to sell assets removed from Crédit Lyonnais's balance-sheet. CDR has a 17 per cent stake in Aerospatiale.

In what would be an innovative move, he said the final price paid to CDR would be adjusted to reflect the performance of the shares, positive or negative, in the early months of trading.

A sale of CDR's holding would keep to a minimum the number of shares the state would contribute to the flotation, while correspondingly reducing the proceeds the state would derive from it.

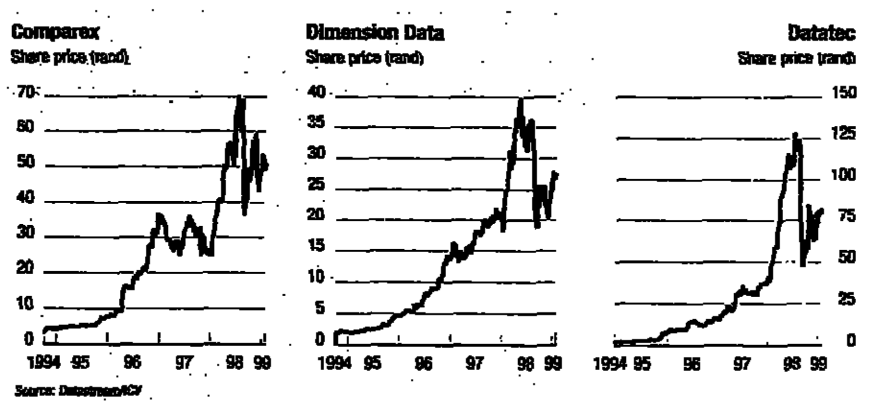
According to estimates within the companies, which emerged last month, the combined value of the new group would be about FFr45bn, which would put a value of some FFr9bn on the stake to be floated.

Under a plan unveiled in July 1998, Lagardère is to own between 30 and 33 per cent of the combined group, with the French state's share falling below a majority.

One executive with knowledge of the current talks indicated yesterday that they were progressing satisfactorily.

Foreign earnings beckon for South African IT groups

The home market is not big enough for ambitious companies, writes **Victor Mallet**



Source: Datastream/ICV

Four years ago, Comparex, a South African information technology group, was wholly dependent on business in southern Africa.

Now, after a string of acquisitions, it has a market capitalisation of R17bn ($2.8bn), makes 70 per cent of its profits in Europe and is planning secondary stock exchange listings in London and possibly Frankfurt.

Its local rivals have taken a similar route to foreign earnings, and two of them – Dimension Data and Datatec – want to move their primary listings from Johannesburg to London or New York.

Their stories are typical of what is happening in South Africa's IT sector. As elsewhere, the country has seen very rapid growth in internet use, IT services and the number of IT companies. "There is a frenzy for value-added services: systems integration, customised software and electronic commerce," says Stéphanie Leclercq, analyst at Standard Equities in Johannesburg.

Within weeks, the Johannesburg Stock Exchange is expected to create a new IT sector to cater for the dozens of computer and software companies now lumped together with various manufacturers under "electronics and electrical".

The South African IT market of about $5bn a year is nevertheless tiny by world standards. Several of the country's larger IT groups, including Comparex – a name adopted from the German systems group it took control of last year – have outgrown their home base and moved into Asia, Europe and North America.

"A couple of South African companies have decided to move out of South Africa in a relatively aggressive way," says Roux Marnitz, Comparex chairman. He describes electronic commerce and data security as "a major thrust" for his company and says the European Union IT market is a hundred times larger than South Africa's.

Ms Leclercq says that as the country's IT groups reach a certain critical mass, the size of the South African market begins to limit their growth. "The foreign listings are useful if they want to raise capital for their expansion offshore."

South Africa's leading IT stocks appeal to international emerging market funds because they carry an emerging market label while providing the security of hard currency earnings from their foreign operations.

But company directors want to attract European and US technology funds rather than emerging market specialists to their shares.

Datatec, which makes most of its money overseas, and Didata, whose foreign operations account for nearly 30 per cent of earnings, both want to move their primary stock exchange listings to London. Datatec, advised by Merrill Lynch, is also looking at the possibility of a Nasdaq listing in the US.

"Eighty per cent of our business is in Europe and North America," says Jens Montanana, Datatec executive chairman. "Our origins are here but we're not really – in terms of the base of our business – a South African company."

Datatec bought Westcon, a US equipment distributor, for $170m last year. In the UK, where its London customers include Deutsche Morgan Grenfell and J.P. Morgan, it now runs an operation with 1,000 staff and £200m ($330m) in turnover.

However, the ambitions of such companies to move their domiciles abroad may yet be thwarted by the South African government. The ruling African National Congress has approved moves to London by the Anglo American conglomerate and South African Breweries but is anxious not to see a flood of white capital and expertise moving overseas.

Another issue raised by plans to list in London is the way in which South African IT companies have accounted for their numerous acquisitions. Present South African accounting rules, due to be reformed soon, allow goodwill write-offs that make the earnings of South African companies look better than when accounts are restated for their UK or US primary listings.

"The fact that they could do this has fuelled this boom," says one Johannesburg stock analyst.

"People say it's easy money, and it's made acquisitions look attractive. Everybody's jumped on the bandwagon, but they won't be able to repeat this formula elsewhere and the model won't work in the future because of the change in accounting."

Mr Montanana acknowledges that restated accounts would show lower absolute earnings, although they would not necessarily change the steep upward curve of profits growth over the years. The effect of restatement, he says, "is not wild".

Datatec buys Bloomfield and Satelcom (UK)

Datatec, the fast-growing South African information technology company, yesterday announced two new foreign acquisitions at a cost of up to $200m, as part of its strategy of expanding its international systems integration business, **writes Victor Mallet**. In the US, Datatec has bought Michigan-based Bloomfield Computer Network Solutions for $30m plus further amounts up to $102m depending on the company's future profits. Datatec said the deal provided "an important beach-head in North America". In the UK, Datatec has bought Satelcom (UK), its fourth British systems company, for a maximum of £41m ($68m). Again, the final price depends on performance. Both businesses will be integrated into Datatec's international Logical brand.

NEWS DIGEST

TELECOMMUNICATIONS

Equant to raise $2.8bn in secondary offering

Equant, operator of the world's most extensive international data and voice network, is raising about $2.8bn through the largest secondary offering in the sector so far. The company, formerly Sita Telecommunications Holdings, raised $810m when it came to market in July 1998. It now intends to offer 35m shares representing 17.4 per cent of the company's share capital. Last Friday, the company was capitalised at $15.2bn.

Equant is owned by the Sita Foundation (59.6 per cent), a group of institutional investors led by Morgan Stanley Capital Partners (25.5 per cent) and public shareholders (14.9 per cent). The Sita Foundation and certain Morgan Stanley funds will receive all the net proceeds from the offering.

The group still has substantial funds retained from the IPO and a $400m line of credit. The selling shareholders are trying to take advantage of demand for high-quality stock in a sector that is outperforming the market by more than 40 per cent. The offer price is expected to be announced around mid-February. Morgan Stanley Dean Witter is sole bookrunner and global co-ordinator. **Alan Cane**

LUXURY GOODS

LVMH sales drop 5 per cent

LVMH, the French luxury goods group, yesterday reported a 5 per cent fall in 1998 sales to €6.9bn, which it blamed on its exposure to troubled Asian markets. The group, which announced this week it had become the largest shareholder in Gucci, its Italian rival, reported a 34 per cent fall in turnover at DFS, the duty-free retailing chain. However, it said DFS sales had picked up late in the year, helped by the rise in the yen. Analysts noted that activity for the whole group had improved in December, possibly signalling that the worst of the Asian crisis might be over. LVMH shares rose 6 per cent early yesterday, before closing at €207, up 3.2 per cent. **Samer Iskandar, Paris**

BANKING

Argentaria net profit rises

Argentaria, the Spanish bank that has been the subject of takeover speculation since the €27.3bn ($31.6bn) merger of rivals Banco Santander and BCH earlier this month, yesterday reported a 16 per cent increase in 1998 net profit of Pta73.3bn (€441m, $509m). Earnings from fee commissions were up by 44 per cent, an increase that was marginally down on the 12-month increase of fee earnings in the third quarter last year. Net interest income rose by just 2.9 per cent to Pta220.3bn against a 5.7 per cent year-on-year spurt at the end of the first half, and 3.8 per cent at the end of the third quarter. However, return on equity increased nearly 20 per cent over the 12 months, to 13 per cent. **Tom Burns, Madrid**

CAR MANUFACTURING

Ford cuts Fiesta production

Ford is cutting 70,000 Fiesta cars and vans from its production schedules in Germany and the UK, blaming depressed demand in several key European markets. Cologne will make nearly 30,000 fewer Fiesta cars than scheduled up to the end of March. **John Griffiths**

Deutsche Bank fights back over performance

By Clay Harris, Banking Correspondent

After suffering several years of sniping over its investment banking performance, Deutsche Bank is coming out fighting.

The agreed $10.1bn takeover of Bankers Trust of the US will fill important gaps in the German bank's geographical and product range, but senior executives said this week in London that the operation had already made great strides.

Edson Mitchell, head of global markets, the fixed-income and foreign-exchange business, said: "I think we're going to end up the most profitable global markets firm in 1998."

He and colleagues said this was an early benefit of Deutsche's re-organisation last year, which combined corporate and investment banking into a single division represented at management board level by Josef Ackermann.

Deutsche, which bought Morgan Grenfell of the UK in 1989, had been criticised for its failure to make inroads in the US, in spite of an expensive hiring spree in the mid-1990s.

Its decision last year to put "Europe first" was seen as a retrenchment, and it then suffered the loss of several top executives and the high-technology investment banking team led by Silicon Valley superstar Frank Quattrone.

But Michael Philipp, global head of equities, said it was now clear "we're going forward, not going back". His business would report a big turnround from the break-even result in 1997, helped by the equity derivatives business bought from National Westminster Bank.

This will now be reunited with NatWest's former cash equities operation, bought by Bankers Trust at the same time.

In research, Deutsche would become number one in the UK and vault into the top three in Europe. In the US, thanks to Bankers Trust's Alex. Brown subsidiary, it enters the top 10.

"One of the real areas for opportunity we see is for small and medium-sized companies in Europe, where we already have a strong presence on the large cap side," Mr Philipp said.

On the fixed-income side, Mr Mitchell said: "I'd be very disappointed if we're not number one this year in overall euro league tables. We look at 1999 and the euro, and [see] many of our competitors wounded. Merrill is in full-scale retreat in fixed income, Goldman in disarray, Lehman reeling and Salomon a shadow of itself."

Bankers Trust puts Deutsche in a "very strong position" in Europe's fledgling high-yield market, Mr Mitchell said. "People have been talking about it for years; finally it's coming to fruition. There's no reason for a [Donaldson, Lufkin and Jenrette], a Merrill Lynch or a Morgan Stanley to dominate the high-yield market in Europe."

Usinor poised to reveal revamp

By David Owen in Paris

Usinor, the French steel maker, is expected today to announce its biggest restructuring for more than a decade, in a move designed to offer a better service to its clients and take account of its increasingly wide geographic scope.

The group, chaired by Francis Mer, has embarked on a string of international acquisitions over the past two years, culminating in a deal, agreed last October, to buy a majority stake in Cockerill Sambre, the Belgian state-owned company, for BFr26bn (€644m, $756m).

The deal created Europe's largest maker of crude steel, accounting for about 14 per cent of the European market.

Usinor will also be hoping that the reorganisation – expected to feature the break-up of Sollac, its dominant flat carbon steel division, and the centralisation of back-office activities – helps lift its share price.

Yesterday, the shares significantly outperformed the benchmark CAC 40 index, closing nearly 2 per cent higher at €10.22.

Trade unions yesterday claimed the restructuring amounted to the "Balkanisation" of Usinor, and suggested the move could lead to many white-collar job losses.

Usinor is in the process of selling a large part of its speciality steels division, in a move intended to enable the group to focus on its flat carbon steel and stainless activities.

First-half net attributable profit, announced last year, more than doubled to FFr2.04bn (€310m, $365m). The company said second-half results would be less favourable, but full-year performance should show a clear improvement from 1997.

● Cockerill Sambre said Philippé Delaunois, its managing director, would stand down at the end of March or in early April after refusing an offer of a new position within the Usinor group, AFX News reports from Brussels.

Philips cuts back profit forecast

By Jeremy Gray in Amsterdam

Philips, Europe's largest electronics group, yesterday cut its profit forecast for 1998 owing to Fl 2bn (€907m, $1.05bn) in charges to be taken for the fourth quarter.

The Dutch company, which is digesting losses from its aborted telephony joint venture with Lucent Technologies of the US, said it expected to report "marginally lower" net earnings from normal operations.

In 1997, Philips posted a record net profit of Fl 3.29bn, and had been planning to at least match that showing in 1998. The company said Fl 500m had been set aside partly for restructuring and adjustments to pension liabilities and for bad debts – mainly in Brazil.

Philips also said it expected to make a one-off gain of about Fl 10.7bn from the sale of its 75 per cent stake in PolyGram, the entertainment group, to Canada's Seagram. The profit estimate excludes these proceeds.

About Fl 1.5bn of the pre-tax charges relate to items announced last October, Philips said.

Its shares yesterday closed down 2 per cent in Amsterdam at €66.40.

MEDIA DEPARTURE OF DAVID MONTGOMERY COULD LEAD TO FORMAL BID FROM TRINITY

Institutions force Mirror chief to resign

By John Gapper

David Montgomery resigned as chief executive of Mirror Group, the newspaper company, yesterday after succumbing to pressure from some of the UK's largest investment institutions, which were dissatisfied by the company's performance.

The departure of Mr Montgomery, who resigned with a likely pay-off totalling £1.4m ($2.3m) after a week of open divisions within the Mirror boardroom, could open the way for the group to be merged or taken over by a rival company.

His resignation came after sustained pressure from Mirror's non-executive directors and three of the largest UK investors, and could herald other attempts to force out chief executives of under-performing public companies.

Hermes Investment Management, the fund manager owned by the British Telecom pension fund and one of the three institutions that took a leading role in forcing Mr Montgomery out, said it had built up stakes in seven other companies where it believed senior management or strategy should change.

"Mirror Group was among the worst performing media shares. We wanted to do something about that, and it was clear that the chief executive had to go," said Peter Butler, chief executive of its UK Focus fund.

Mr Montgomery's resignation was also prompted by Phillips & Drew Fund Management.

Trinity, the regional newspaper company, could now make a formal bid. The company indicated before that it believed Mr Montgomery was an obstacle because of his wish to retain some executive power in a merged group.

Mirror appointed John Allwood, its former finance director and head of Midlands and Scottish titles, as chief executive and insisted it would stay independent if its board did not receive an offer that gave shareholder value.

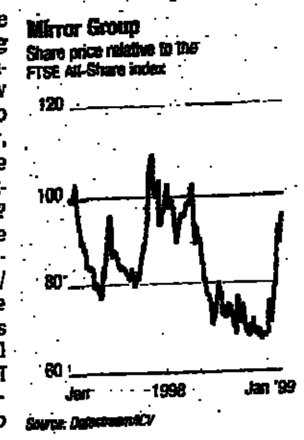
Mirror's board last week turned down a 200p per share offer from Regional Independent Media, backed by Candover, the private equity firm. Hearst Corporation and Compass Partners could also been drawn into the bidding.

Sir Victor Blank, Mirror's non-executive chairman, said it had "become clear there was a degree of shareholder discontent with the existing leadership" because of the under-performance of Mirror shares.

Mr Montgomery that said it was "an opportune time to make this decision" as the group now seems less likely to have an independent future. He said the move could lead to "further enhancement of shareholder value".

COMMENT

Mirror Group



Who will get to pick up the Mirror shards, following David Montgomery's resignation as chief executive? Now is the time for Trinity to show the colour of its money, given the removal of the so-called obstacle: Mr Montgomery. But on what terms? The starting point for the original Trinity merger discussions appeared to be a 55/45 division of spoils in the Mirror's favour. There is nothing like a potential rival cash offer from Regional Independent Media – rebuffed at 200p a share – to concentrate the mind.

By how much should Trinity sweeten its terms? A break-up valuation of the group – taking in the Mirror's national and regional newspapers – would produce about 230p a share. Mirror might argue for a price of 250p or more, using the sales multiples of recent deals in the regional newspaper sector. But these now look too frothy, given the turn in the cycle.

Of course, Trinity's paper carries with it the promise of savings to come – variously estimated at £10m-£20m a year pre-tax. Then there are the less tangible benefits of better growth prospects in a better capitalised combine, with less exposure to the predatory world of national newspapers. But sticking with the original split would yield just 190p per Mirror share. Even throwing in the extra benefits would not match a cash bid pitched at the 230p level. But skewing the terms to 60/40 might get Trinity back in the frame.

Corporate governance

What conclusions can corporate governance junkies draw from the Mirror boardroom row? Broadly, the system works. Shareholders and non-executives got what they wanted: the resignation of the chief executive. In the event, it was not necessary for some executive directors to abstain in order to give the non-executives the majority they do not naturally have. This would have been unpalatable. Executives have a duty to the company. Not voting on such an important matter would have looked like an abdication of responsibility. Should the non-executives be in a majority? It would have helped in the Mirror situation. Activist shareholders with an eye on other boardroom rows should take note. But a wholesale move to boards dominated by non-executives could be a mistake. After all, non-executives need the advice of executives steeped in the nuts and bolts of the business.

Body Shop exits from manufacturing

By Alison Smith

Body Shop International plans to launch a loyalty programme in the UK later this year as part of a wide-ranging restructuring announced yesterday.

Patrick Gournay, chief executive, said the plan would be a way of creating closer contact with consumers. The company has carried out pilot schemes in Sweden and Switzerland.

The restructuring programme has three main elements, including a move out of manufacturing, which will see the company outsourcing to third parties on a regional basis.

This will involve selling its Littlehampton manufacturing operations in the UK, which employ more than 550 people. The company, which talking to potential partners, expects to implement a deal within six months.

The company will also "re-appraise" its franchising operations, working more closely with some franchisees and buying back others. At the end of last year, it bought Cosmo Trading, the private company which operates its head franchise in Germany.

Body Shop itself will be re-organised into a smaller head office and four new regional businesses - Americas, Europe, the UK and Asia - each of which will have responsibility for expansion plans and for the day-to-day management of the business. This process should be completed by the end of the year.

Mr Gournay, who was brought in last summer as chief executive to succeed Anita Roddick, the company's founder, said the changes were intended to allow the company to turn ideas into products more quickly and to focus more clearly on its retail business.

The restructuring will mean an unspecified number of redundancies. Ms Roddick, executive co-chairman, said she did not yet know the breakdown of the redundancies.

She described the move as "a 180-degree shift" away from the "manufacturing-obsessed" business the group had become, enabling it to return to its roots as a fast-moving entrepreneur.

When the restructuring is completed it should bring cost-savings of £8m a year, but for the current financial year the re-organisation will mean £8m in exceptional costs beyond those announced at the interim results in October, taking the total to £33.5m. In the next financial year there should be savings of £4m.

The loyalty programme is one sign of the renewed focus on retailing.

Last week, Body Shop's Christmas trading statement disappointed the market. Yesterday the shares recovered 5½p to close at 88½p.

Eureko and Royal contend for GRE

By Andrew Bolger

The battle to win control of Guardian Royal Exchange, the UK composite insurer, appears to have narrowed to a race between Eureko, an alliance of seven European insurers, and Royal & Sun Alliance, GRE's larger UK competitor.

The board of GRE will meet to decide as soon as the prospective bidders have finalised their offers. This may be this week, but the process could well run beyond GRE's self-imposed deadline of the end of January.

Royal & Sun, the UK's largest general insurer, has discussed offering about 390p per share, valuing the GRE at £3.4bn ($5.6bn). Royal & Sun was seen as front-runner in the bidding battle for GRE, given its scope to cut costs by shedding thousands of jobs from the enlarged operation.

However, Eureko has now also emerged as a serious contender, after entering the auction late. It will make a cash offer and seems willing to match or top a Royal & Sun offer, which would be half in cash, half in shares. This could push the final price towards 400p per share.

Axa, the French insurer, has not withdrawn from the race, but was earlier unwilling to offer more than 360p.

Unlike Royal & Sun, Eureko could also promise minimal job cuts since it is keen to have a significant operation in the UK, alongside Friends Provident, the UK mutual life insurer that was a founder of the European alliance in 1992.

The other founding members of Eureko are Achmea, the Dutch insurer; Topdanmark, the Danish financial services group; and Länsförsäkringar Group of Sweden. The alliance has subsequently been joined by BCP/Atlántico of Portugal; Parion of Germany; and Swiss Mobiliar.

The main obstacle to Eureko clinching the deal is that it does not want GRE's North American general insurance businesses, which account for about 18 per cent of the group's premium income. Last year GRE paid $1.15bn for the US property and casualty business of ING, the Netherlands-based financial services group.

However, analysts are confident Eureko could find buyers for the US operations, which make GRE one of the top three property and casualty insurers in eight states in the Midwest and north-east. Royal & Sun was among the companies that GRE outbid for the ING operations.

Last year Eureko was outbid for Gan, the privatised French insurance group.

Anglo to delay timing of London listing

By Gillian O'Connor

Anglo American, the £4bn ($6.6bn) South African mining group planning to move to London, yesterday said it did not expect to obtain its London stock market listing until late May, a couple of months later than originally planned. It is still hoping to be admitted to the FTSE 100 index by the end of June.

The company, which at present has its primary listing in Johannesburg, is reorganising several parts of its corporate structure before making a formal application for a London listing. The most important deal outstanding is the formal takeover of Minorco, its sister company, for which it is making a $3.6bn bid.

The company said yesterday that the original timetable had always looked ambitious. When the change of domicile was announced on October 15, it had hoped it might obtain its listing in time to be admitted to the FTSE 100 after the committee's March meeting.

However, it was obvious even before Christmas this target was unrealistic. And since its next opportunity for joining was not until June, directors felt it was sensible to devote the additional time to preparing the listing particulars.

UK fund managers are likely to have some reservations about Anglo American. The biggest worries are the dominance of the Oppenheimer family and that, even after the corporate restructuring, Anglo will still have substantial cross-holdings with the De Beers diamond mining group. Mining companies and emerging markets have also fallen out of favour.

Some index tracking funds will, however, have to buy Anglo shares because they will be in the FTSE 100.

Predator seeks out downbeat LIG

Virginia Marsh and Tracy Corrigan consider the likely identity of the mystery bidder and possible regulatory implications

Nick Hodges, London International Group's chief executive, once said his greatest fear was that the company, which makes Durex condoms and Marigold rubber gloves, would be bid for before he had brought out its true potential.

With Monday's announcement of a preliminary, unsolicited merger approach, that might be about to happen.

The potential bidder has caught the UK group at a low point.

A profits warning in December, prompted mainly by a slump in sales of lower margin medical gloves, hit LIG's shares. They fell 30 per cent in a day, reaching their lowest level since early 1996 and reversing the upward trend initiated by Mr Hodges after he became chief executive in 1993. He was drafted in after the group – then a conglomerate that stretched to cough syrups and hair-brushes – ran into serious problems, culminating in losses of £174m in 1993-94.

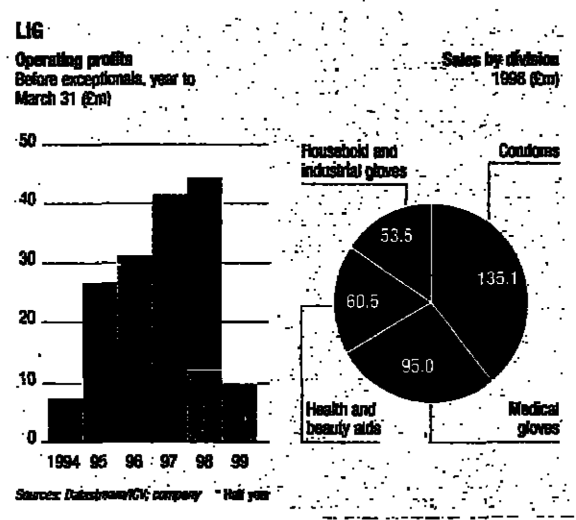
Analysts say the UK group, which Mr Hodges has focused on condoms and gloves, could appeal to companies ranging from Procter & Gamble, the US consumer goods giant, to Okamoto Industries, Japan's leading condom maker but a smaller company than LIG. Shares in LIG rose 9p to 172½p yesterday, valuing it at £600m.

LIG's attractions lie in the strength of its brands, especially Durex, and its dominant positions both in condoms and in gloves, where it supplies the medical, industrial and household markets. Last year, medical gloves accounted for 28 per cent of group sales of £345m, household and industrial gloves for 16 per cent and condoms for 39 per cent.

LIG is number one in the world condom market, which is worth £700m a year, with a 21 per cent share. It is followed by Ansell, the rubber goods arm of Pacific Dunlop of Australia, which has 12 per cent, and Carter-Wallace of the US and Okamoto which both have 7 per cent. The market, which consists almost entirely of branded sales – rather than unbranded condoms distributed mainly in the developing world by aid agencies – is growing at 2 to 3 per cent a year. But although annual growth in mature markets such as the UK and the US is less than 2 per cent, sales are rising at more than 10 per cent a year in some emerging markets such as Asia and eastern Europe.

The protective glove market is more fragmented but is growing more quickly. LIG is number one in acute care surgical gloves in the US, the largest healthcare market in the world, with a 30 per cent share, but is fourth in the world in industrial gloves.

Analysts say one of the strongest contenders for LIG could be Safeskin, the leading maker of latex examination gloves in the US market. Its shares rose $¾ to $24 by mid-session yesterday on speculation that it was behind the approach. But some analysts said the west coast company indicated recently that it was not proposing any acquisitions.



There could also be interest from Kimberly Clark, the large US consumer products group, which has been building up its medical products business, for example, with its acquisition of Ballard Medical, a disposable respiratory products business.

However, Melissa Wilmoth, at Merrill Lynch in New York, noted that LIG's condoms business might be more attractive to a potential acquirer, since the company has been losing market share in surgical globes.

According to Viren Mehta, analyst at Mehta Partners in New York, LIG's condoms business has "a better brand and better margins. The surgical gloves business has proved to be easier for emerging market companies to penetrate". This could make Carter-Wallace, owner of the Trojan brand, the US condom market leader, a possible bidder, although many analysts rule this out on competition grounds. Together, Carter-Wallace and LIG control more than two-thirds of the US market.

Ansell, which produces both gloves and condoms, might also face regulatory problems for the same reasons in other markets, but observers say these are not insurmountable. Pacific Dunlop, its owner, has said it aims to expand the business globally and has been freeing financial fire-power by shedding non-core assets.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aston Villa	6 mths to Nov 30 ★	13.6	(11.9)	13.8	(0.422L)	81.9	(10.3L)	2.2	Feb 5	2.2	-	8.8
Cassidy Brothers Φ	6 mths to Oct 31	4.1	(3.58)	0.267	(0.168)	3.64	(2.67)	0.75	Apr 6	0.75	-	3
FII	6 mths to Nov 30	31	(39.1)	2.65L	(2.18)	11.5L	(8.8)	1	Apr 8	2	-	5
IMS	Yr to Oct 31	22.6	(13.4)	2.86♠	(2.65♠)	6.1†	(5.2)	2.42	Apr 9	2.2	3.63	3.3
London Scottish Bk	Yr to Oct 27	-	(-)	10.4♠	(9.42)	5.6	(5.7)	2.68	Apr 6	2.415	3.75	3.39
Photo-Me Intl	6 mths to Oct 31	114.1	(85.1)	15.2♥	(11.2)	14.56	(9.57)	2.2	Apr 1	2	-	6.5
Stentor ♣Φ	6 mths to Sept 30	3.07	(0.125)	6.76L	(1.64L)	85.52L	(19.4L)	-	-	-	-	-
Systems Integ Φ	6 mths to Nov 30	0.661	(0.516)	0.032	(0.296L)	0.1	(2.4L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Geared	6 mths to Nov 30	440.1	(371.7)	0.072L	(0.202)	0.39L	(1.14)	1	Feb 26	0.95	-	2.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★ Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ♣Irish currency.

TRW and Lucas agreement close

By Andrew Edgecliffe-Johnson

Several large shareholders in LucasVarity, the UK-based car components group, indicated yesterday that they would accept a bid from TRW of the US at about the mooted price of 290p a share, or £4.05bn ($6.68bn).

TRW and LucasVarity are understood to be hoping to announce an agreed all-cash takeover by the end of this week, to counter a conditional 280p per share proposal from Federal-Mogul, the US group which bought T&N in 1997. LucasVarity's shares jumped 42p to 286p yesterday.

Two UK institutional investors said an all-cash offer from TRW would be more attractive than Federal-Mogul's cash and paper proposal, which is conditional on the brake manufacturer being allowed to carry out due diligence of LucasVarity's £1.2bn pension fund surplus.

"A cash and paper offer would have to exceed [TRW's] cash offer by a margin of about 10 per cent," one investor added, while another commented that it would be more difficult to value Federal-Mogul's shares than to accept an all-cash bid.

TRW would not comment, but is believed to be in the process of arranging funding for the takeover, which will need the consent of its board.

Analysts said yesterday that TRW could choose to offset the cost of the deal by selling its airbags business, which accounted for about $3.2bn (£1.93bn) of its $7bn automotive sales in 1997.

It might also split the automotive unit from its space and defence businesses.

Adwest agrees to Dura takeover

By Andrew Edgecliffe-Johnson

Dura Automotive Systems, the US-based handbrake and automotive cables business, confirmed yesterday that it has agreed a £124.8m ($206m) takeover of Adwest, the UK gearshift and engine thermo-stats group.

The all-cash offer is priced at 150p a share, more than double the level at which they stood last week. Dura's bid is the latest example of consolidation among automotive industry suppliers and of US bargain-hunting among out-of-favour smaller engineers.

Dura said the trends towards consolidation and globalisation were factors behind the purchase. There is little overlap between Dura, which has a strong market position in gearshift cables, and Adwest, which has a better mechanical capability and a 30 per cent share of the European manual gearshift market.

Adwest's shares closed up 13½p at 147½p.

EURO PRICES

EQUITIES

Weak Real tempers investor optimism

EUROPEAN OVERVIEW

By Bertrand Benoit

European equity markets shed early gains and ended virtually unchanged as a further decline in the Brazilian Real tempered optimism that the crisis could be contained.

Markets had a robust start following a good overnight performance on Wall Street and several assurances from Chinese officials that the renminbi would not be devalued.

Adding to the rosier picture, a research note by J.P. Morgan stated that the global impact of the Brazilian crisis "should be considerably smaller than was the hit from emerging Asia".

In another note, Ram Bhagavatula of NatWest Global Financial Markets played down the impact of the crisis on global growth.

"A Brazilian recession was already factored in ... the risk, if anything, is that global forecasts will be revised up," he commented.

But the Real's plunge from 1.83 to the dollar to 1.97 within minutes of the opening cast a shadow over Brazil's short-term prospects.

After Fitch IBCA's decision yesterday to downgrade the country's credit rating, some dealers now expect the restructuring of Brazil's domestic debt to be unavoidable.

"We are not out of the woods," said Peter Sullivan, European equity strategist at Goldman Sachs. "Brazil is bad news at a time when the dollar is already struggling under the weight of the US current account deficit."

"And any event that threatens to soften the global economy will harm Europe because of its reliance on exports," said Tim Harris and Gary Dugan at J.P. Morgan.

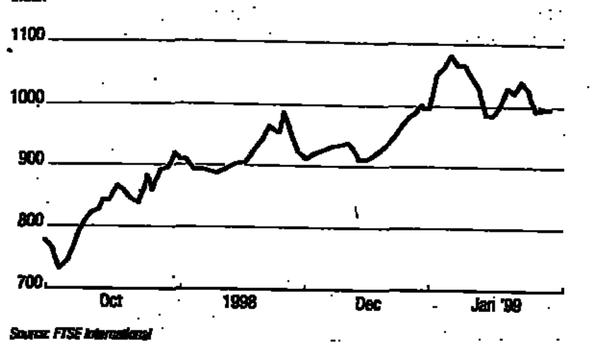
The FTSE Eurotop 300 index gained 1.05 to 1,187.54, while the FTSE Eurotop 100 lost 2.16 to 2,723.67. The FTSE Ebloc index of leading shares in the euro-zone closed 1.58 higher at 996.43.

Bids rumours and speculative buying ahead of results time provided some action in otherwise dull markets.

Among the day's best performers Saint Gobain gained €8.90, or 8 per cent, to €120.50 ahead of its results statement later this week, while healthy 1998 sales lifted Pinault-Printemps €8 to €156.

Unicredito was suspended at €4.76 after talks of an imminent bid by Deutsche Bank lifted it to its upper limit.

FTSE Ebloc 100



Source: FTSE International

THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Mar	97.030	97.010	-0.025	97.030	97.005	30271	61375
Jun	97.170	97.155	-0.020	97.190	97.150	27184	70532
Sep	97.220	97.205	-0.025	97.240	97.200	18333	37128
Dec	96.985	96.975	-0.020	96.995	96.970	11234	55876

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Mar	97.025	97.010	-0.025	97.035	97.000	13924	174727
Jun	97.160	97.150	-0.020	97.180	97.150	22165	155122
Sep	97.220	97.205	-0.025	97.235	97.200	11262	133925
Dec	96.985	96.970	-0.025	96.985	96.970	4079	104291

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
97125	0.015	0.030			0.130	0.145		
97250	0.005	0.010	0.060	0.065	0.245	0.250	0.160	0.185
97375	0	0.005			0.365	0.370		
97500	0	0	0.015	0.030	0.490	0.490	0.365	0.380

Est. vol. total, Calls 23849 Puts 15403. Previous day's open int., Calls 343222 Puts 187462

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Mar	2750.0	2730.0	-10.0	2750.0	2708.0	233	5682
Jun	-	2734.0	-10.0	-	-	0	0

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P
Feb	182	62	148	79	117	98	100	127	75	152	56	184	41	218	29	256
Mar	237	114	205	133	176	153	158	180	132	205	108	232	88	262	71	296

Est vol total:510 Prev day's open interest total 5,289. Premiums shown are based on settlement prices.

OTHER INDICES

	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3368.89	3375.60	3360.24	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3433.87	3428.80	3428.11	3685.36	2419.23	3685.36	2419.23
MSCI Europe	(u)	1179.15	1186.10	1315.55	906.59	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Jan 26 National & Regional Markets	Euro-Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1187.54	+0.09	+1.05	2.29	0.44	1223.25
FTSE Eurotop 100	2723.67	-0.08	-2.16	2.37	1.78	976.96
FTSE Ebloc 100	996.43	+0.16	+1.58	2.07	0.34	1011.78
FTSE EuroMid	1139.00	+0.81	+9.20	2.98	0.99	1181.21
FTSE EuroMid Ebloc	1188.60	+0.68	+8.04	2.36	1.17	1214.91
FTSE EuroMid Ex UK	1214.21	+0.95	+11.39	2.25	0.80	1237.50
FTSE Eurotop 300 Regions						
Eurobloc	1245.40	+0.17	+2.07	2.03	0.60	1272.86
UK	1105.05	+0.14	+1.58	2.74	0.40	1160.67
Europe Ex-Eurobloc	1140.07	+0.00	+0.05	2.59	0.29	1181.13
Europe Ex-UK	1234.94	+0.06	+0.75	2.07	0.46	1258.51
FTSE Eurotop Industry Sectors						
RESOURCES	803.31	-1.83	-14.94	3.58	0.94	840.98
Mining	745.44	-0.20	-1.48	4.86	0.00	781.18
Oil & Gas	773.47	-1.89	-14.94	3.53	0.94	795.17
BASIC INDUSTRIES	1007.48	+0.11	+1.08	2.87	0.60	1029.52
Chemicals	791.59	-0.22	-1.73	2.83	0.65	806.21
Construction & Bld Matls	868.40	+1.56	+13.37	2.86	0.00	875.90
Forestry & Paper	796.84	-0.55	-4.40	3.89	0.00	833.27
GENERAL INDUSTRIALS	1061.58	-0.21	-2.31	2.56	0.13	1104.72
Aerospace & Defence	795.85	+1.10	+8.65	2.04	0.00	806.94
Diversified Industrials	963.77	+0.31	+2.99	2.09	0.00	985.81
Electronic & Elect Equip	964.39	-0.84	-8.12	1.91	0.00	989.65
Engineering & Machinery	949.80	-0.37	-3.51	4.18	0.45	963.38
CYCLICAL CONS GOODS	1279.85	+1.12	+14.13	2.57	0.00	1315.06
Automobiles	954.20	+0.89	+8.41	2.43	0.00	963.05
Household Goods & Texts	1221.81	+2.41	+28.73	3.40	0.00	1232.24
NON-CYC CONS GOODS	1229.70	+0.09	+1.14	1.47	0.05	1263.58
Beverages	910.06	+0.58	+5.24	2.94	0.00	929.71
Food Producers & Procesrs	897.12	-0.35	-3.13	1.72	0.00	907.68
Health	856.86	+0.62	+5.24	6.81	0.00	869.68
Packaging	718.15	-2.02	-14.84	1.25	0.00	719.04
Personal Care & Hse Prods	1113.14	+4.48	+47.73	0.87	0.00	1122.64
Pharmaceuticals	1141.34	-0.30	-3.43	1.12	0.00	1147.54
Tobacco	1448.76	+0.85	+12.23	2.72	1.42	1477.78
CYCLICAL SERVICES	1243.70	+1.53	+18.78	2.46	0.67	1260.79
Distributors	704.59	+1.49	+10.36	4.19	0.00	712.50
General Retailers	1023.13	+2.51	+25.09	3.07	1.06	1045.30
Leisure Entertmt & Hotels	767.05	+0.36	+2.73	2.84	8.02	783.01
Media & Photography	1140.36	+3.32	+36.61	2.03	0.00	1152.54
Rests, Pubs & Breweries	798.41	-1.07	-8.66	3.47	2.64	824.38
Support Services	1080.03	-0.93	-10.14	1.37	0.00	1091.49
Transport	941.94	+0.88	+8.24	2.64	0.00	959.31
NON-CYCLICAL SERVS	1314.21	+0.29	+3.81	1.51	0.32	1353.00
Food & Drug Retailers	1024.91	+0.86	+8.73	2.01	0.00	1040.56
Telecommunications Servs	1297.68	+0.16	+2.13	1.42	0.39	1317.41
UTILITIES	1505.81	-0.07	-1.10	2.93	3.35	1600.58
Electricity	1162.89	+0.03	+0.39	3.02	3.42	1203.73
Gas Distribution	1211.34	-0.36	-4.43	1.56	1.00	1334.82
Water	936.10	-0.21	-1.97	5.34	0.00	980.36
FINANCIALS	1249.83	-0.17	-2.10	2.63	0.13	1284.07
Banks	844.36	-0.46	-3.92	3.48	0.15	856.51
Insurance	1009.23	+0.13	+1.29	1.39	0.00	1021.41
Life Assurance	1180.85	+0.35	+4.07	1.66	0.00	1196.18
Investment Companies	974.14	-0.23	-2.29	1.83	0.00	997.51
Real Estate	595.16	-0.41	-2.44	4.05	0.00	610.83
Speciality & Other Fin	847.20	+0.77	+6.47	2.65	0.00	861.35
INFORMATION TECH	901.48	+1.76	+15.58	1.15	0.00	903.63
Information Tech Hardware	944.59	+1.08	+10.10	1.41	0.00	946.84
Software & Computer Serv	803.63	+3.62	+28.04	0.47	0.00	805.56

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	36.5723	+0.2930	450 - 995	36.6070	36.0530	36.7200	-4.8	37.0063	-4.7	37.9985	-3.9
Denmark	(DKr)	7.4380	-0.0028	308 - 411	7.4432	7.4304	7.4350	-0.5	7.4466	-0.6	7.4837	-0.6
Greece	(Dr)	321.743	+0.0190	473 - 014	322.450	321.434	323.7783	-7.6	327.8556	-7.6	343.0691	-6.6
Hungary	(Forint)	250.728	+0.5030	537 - 920	251.570	250.020	253.5081	-13.3	258.7465	-12.8	281.1224	-12.1
Norway	(NKr)	8.6113	-0.0033	052 - 173	8.6300	8.6015	8.6476	-5.1	8.7093	-4.8	8.9099	-3.5
Poland	(Zloty)	4.1642	+0.0105	606 - 677	4.1862	4.1480	-	-	-	-	-	-
Romania	(Leu)	13318.21	+33.4700	393 - 249	13352.00	13265.00	-	-	-	-	-	-
Russia	(Rouble)	26.8191	-0.0661	532 - 850	27.1510	26.5483	-	-	-	-	-	-
Slovakia	(Koruna)	42.9441	-0.0111	900 - 981	43.0700	42.4445	-	-	-	-	-	-
Sweden	(SKr)	8.9209	-0.0171	147 - 270	8.9825	8.9140	8.9219	-0.1	8.9248	-0.2	8.9547	-0.5
Switzerland	(SFr)	1.6045	+0.0060	034 - 055	1.6065	1.5900	1.6018	2.0	1.5970	1.9	1.5743	1.9
UK	(£)	0.6974	-0.0002	970 - 978	0.7009	0.6965	0.6990	-2.8	0.7020	-2.6	0.7144	-2.4
Americas												
Argentina	(Peso)	1.1573	+0.0012	569 - 576	1.1608	1.1558	-	-	-	-	-	-
Brazil	(R$)	2.1932	+0.1351	867 - 996	2.2009	1.9881	-	-	-	-	-	-
Canada	(C$)	1.7580	+0.0055	569 - 591	1.7740	1.7480	1.7606	-1.8	1.7683	-1.9	1.7865	-1.6
Mexico	(New Peso)	11.8270	+0.0221	118 - 421	11.8886	11.7833	12.1510	-32.9	12.7879	-31.8	14.9927	-26.8
USA	($)	1.1574	+0.0012	570 - 577	1.1610	1.1558	1.1590	-1.7	1.1627	-1.8	1.1796	-1.9
Pacific/Middle East/Africa												
Australia	(A$)	1.8361	+0.0059	348 - 373	1.8494	1.8254	1.8385	-1.5	1.8438	-1.7	1.8654	-1.6
Hong Kong	(HK$)	8.9687	+0.0085	654 - 719	8.9924	8.9594	8.9887	-2.7	9.0442	-3.4	9.4365	-5.2
India	(Rs)	49.1961	+0.0489	783 - 138	49.3622	49.1238	49.4980	-7.4	50.2826	-8.8	54.0404	-9.8
Indonesia	(Rupiah)	10589.77	-177.36	870 - 084	10900.00	10520.00	10935.10	-39.1	11743.00	-43.6	15408.67	-45.5
Israel	(Shk)	4.7292	+0.0070	221 - 383	4.7438	4.7094	-	-	-	-	-	-
Japan	(Y)	132.094	+0.3620	002 - 186	132.900	131.800	131.7966	2.7	131.1996	2.7	128.3228	2.9
Malaysia	(M$)	4.3979	+0.0043	979 - 979	4.4116	4.3927	-	-	-	-	-	-
New Zealand	(NZ$)	2.1629	+0.0013	602 - 655	2.1748	2.1582	2.1639	-0.6	2.1689	-1.1	2.2026	-1.8
Philippines	(Peso)	44.5002	-0.3028	131 - 872	45.1629	44.3077	44.8951	-10.6	45.6971	-10.8	49.5434	-11.3
Saudi Arabia	(SR)	4.3402	+0.0037	388 - 417	4.3544	4.3344	4.3529	-3.5	4.3814	-3.8	4.5044	-3.8
Singapore	(S$)	1.9484	-0.0027	472 - 496	1.9590	1.9470	1.9457	1.7	1.9436	1.0	1.9513	-0.1
South Africa	(R)	6.9904	+0.0041	767 - 041	7.0780	6.9698	7.0659	-13.0	7.2173	-13.0	7.8886	-12.8
South Korea	(Won)	1360.47	-3.2780	832 - 261	1381.71	1357.71	-	-	-	-	-	-
Taiwan	(T$)	37.3825	+0.0083	133 - 516	38.1380	37.3120	37.4760	-3.0	37.6763	-3.1	38.7853	-3.8
Thailand	(Bt)	42.4748	-0.2006	041 - 455	42.9659	41.8180	42.6464	-4.8	42.9898	-4.8	45.3086	-6.7
UAE	(Dirham)	4.2508	+0.0042	493 - 523	4.3350	4.23040	4.2576	-1.9	4.2730	-2.1	4.3440	-2.2

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, and spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.

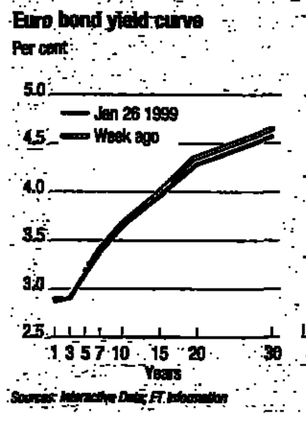
BONDS

INTEREST RATE SWAPS

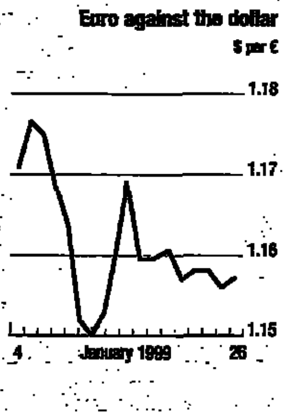
Jan 26	Euro-E Bid	Euro-E Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	2.99	3.02	2.99	3.02	5.54	5.57	5.03	6.06	0.46	0.49
2 year	3.00	3.04	3.00	3.04	5.26	5.29	5.08	5.11	0.62	0.65
3 year	3.11	3.15	3.11	3.15	5.19	5.23	5.14	5.17	0.86	0.89
4 year	3.26	3.30	3.26	3.30	5.13	5.17	5.19	5.22	1.11	1.14
5 year	3.40	3.44	3.40	3.44	5.08	5.12	5.24	5.27	1.33	1.36
6 year	3.54	3.58	3.54	3.58	5.06	5.10	5.28	5.31	1.53	1.56
7 year	3.67	3.71	3.67	3.71	5.05	5.09	5.33	5.36	1.70	1.73
8 year	3.80	3.84	3.80	3.84	5.04	5.08	5.39	5.42	1.86	1.89
9 year	3.91	3.95	3.91	3.95	5.04	5.08	5.42	5.45	2.00	2.03
10 year	4.00	4.04	4.00	4.04	5.04	5.08	5.45	5.48	2.12	2.15
12 year	4.16	4.20	4.16	4.20	5.04	5.09	5.53	5.56	2.34	2.38
15 year	4.35	4.39	4.35	4.39	5.06	5.11	5.64	5.67	2.61	2.64
20 year	4.55	4.59	4.55	4.59	5.06	5.12	5.75	5.78	2.79	2.83
25 year	4.66	4.70	4.66	4.70	5.06	5.13	5.76	5.79	2.85	2.89
30 year	4.73	4.77	4.73	4.77	5.07	5.14	5.78	5.81	2.90	2.94

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Euro against the dollar



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Jan 26	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
SOVEREIGNS								
UK	01/01	4.250	AAA	102.429	2.98	+0.02	-0.42	+0.14
Denmark	01/02	4.750	AA+	104.662	3.07	+0.02	-0.33	+0.17
Sweden	02/01	5.000	AA+	103.865	3.00	+0.02	-0.40	+0.16
Greece	11/08	6.750	BBB	116.597	4.20	+0.01	-0.35	+0.81
SUPRANATIONALS								
ADB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eurofima	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UTILITIES								
EDF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TEPCO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Hydro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norsk Hydro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FINANCIALS								
Bad Wurtt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OKB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Credit Local	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Abbey Natl	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INDUSTRIALS								
Unilever	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
McDonalds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philip Morris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BAT Int Fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PFANDBRIEFE								
Rhein Hypo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HIGH YIELD								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Standard & Poor's ratings. Source: Interactive Data/FT Information.

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brit Aero	8.25	+1	5.5	4.1	1.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DIVERSIFIED INDUSTRIALS					
Investor A	39.05	-.7	3.0	-	2.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HOUSEHOLD & TEXTILES					
Adidas Salomon	98.76	+.7	3.7	-	1.8
Christian Dior	112.80	+3.6	5.1	0.1	2.2
Electrolux B	13.89	+.4	4.9	0.7	2.0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sanofi	178	+5	19.4	0.2	0.8
Schering	112.81	-	7.7	0.1	1.2
SmithKline Beecham	11.82	-.1	66.6	8.7	1.4
Synthelabo	208.30	-3.9	10.1	0.1	0.4
Zeneca	41.24	+.6	39.2	2.3	1.8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Bund market 'too small for derivatives'

By Samer Iskandar in Paris

The German government bond, or bund, market is too small to support the amount of derivatives based on it, threatening the stability of the euro-zone's financial system, according to the Société des Bourses Françaises, operator of the French stock and derivatives exchanges.

SBF believes financial institutions could be exposed to large losses, should this relative shortage of bonds result in big price discrepancies when demand rises.

"If all the demand is concentrated on a contract with a limited amount of deliverable bonds, there is a risk of a squeeze on the bonds," said the Matif, the derivatives exchange run by SBF.

In other words, derivatives traders who have to fulfil their contractual obligations could find themselves trying to buy more bonds than are available on the market.

The bund market, considered Europe's safest, suffered such a squeeze in September after Russia's default on its sovereign debt. In the subsequent flight to quality, investors bought so many bund futures that even if only a third of them had requested delivery, there did not exist enough bonds in the market to satisfy the potential demand.

The problem was exacerbated by the successful launch of the euro this month, which has reinforced bunds in their position as the benchmark – or reference – for the bond markets of all euro-zone countries.

With investors now trading bund futures to hedge investments in other participating countries' bonds, another squeeze on bunds is likely to be more severe.

"Market participants are hedging [investments in euro-zone government bonds] on deliverable bonds that account for a fifth of the market," said Jean-François Théodore, SBF chairman.

He said open positions – the number of futures contracts held that have yet to be settled – amounted to 3.5 times the existing stock of bonds deliverable on these contracts, across the euro-zone. In the US, the world's most liquid market for bonds and futures, the monetary authorities consider the financial system is at risk when open positions rise to more than 35 or 40 per cent of the amount of underlying bonds, said Mr Théodore.

The Matif is to announce today that bunds will be deliverable against its notional contract on 10-year euro-denominated bonds, in addition to French debt.

The change is one of the most significant modifications to the contract, the Matif's oldest and most popular. It makes the Matif Europe's only multi-issuer exchange. Existing futures on five and 30-year bonds already accept delivery of bunds – and Dutch bonds in some cases – as will a new two-year note future due to be launched this week.

The Matif is locked in a battle for market share with the London International Financial Futures and Options Exchange, and Eurex, its German-Swiss rival. Eurex last year seized the leadership from Liffe in bund futures, Europe's most actively traded bond future.

JGBs, gilts grab spotlight

BENCHMARK BONDS

By Arkady Ostrovsky in London and Richard Waters in New York

The Japanese and UK government bond markets grabbed the spotlight, with the US and the rest of Europe lacking direction and closing broadly unchanged.

In the UK, an unexpected rise in business confidence, revealed in a survey by the Confederation of British Industry, reduced hopes of a cut in interest rates when the Bank of England MPC meets next week, and pushed the short end of the gilt market lower.

The rebound in business confidence for the first time since 1997 added to the view that the UK economy was heading for a soft landing rather than a full-blown recession.

Two-year UK gilt yields rose 5 basis points while 30-year yields fell 3 points. The 10-year gilt March future rose 0.17 to 120.21. Barclays Capital argued that the yield spread between gilts and German bunds were too tight at the long end of the curve and could only be justified if Britain was to join European Monetary Union in about three years.

Japanese government bonds staged a small rally, underpinned by better than expected results of a 10-year auction. David Knott at Deutsche Bank said demand for 10-year JGBs showed the focus was shifting from concern about oversupply to concern about the Japanese economy, which shows little sign of improvement. The benchmark 10-year bond March future rose to 130.76 from 130.20.

US Treasuries were mixed in light morning trading, with long-dated securities continuing to trade in the narrow range of the past two weeks. With signs of greater stability in Brazilian financial markets and a US consumer confidence report showing little change for January, the fixed income markets continued to await developments to draw them out of the current range.

By early afternoon in New York, the benchmark 30-year bond was trading $\frac{1}{32}$ higher at 102$\frac{1}{32}$, to yield 5.108 per cent. Ten-year securities fared less well, slipping $\frac{1}{32}$ to 100% and yielding 4.669 per cent, while two-year notes were unchanged at 100$\frac{1}{32}$ for a yield of 4.606 per cent.

European bond markets were in a "wait and see" mode and closed lower or unchanged. The benchmark 10-year German bund March future closed 0.03 lower at 117.67.

Biggest euro bond from Belgium

NEW ISSUES

By Khozem Merchant

Belgium has launched the largest euro-denominated bond. It will be followed later this week by Sweden, one of the "euro-outs", which is expected to launch a seven-year €2bn bond, its debut in the new currency.

The Swedish issue, like Belgium's 10-year €5bn bond, is likely to be via a syndication of international banks instead of a domestic auction. Belgium is the third euro-zone member to issue via a syndication, following Austria and Portugal.

Using a syndicate helps capture a global investor base and achieves greater liquidity, which is the key attraction for global investors in the euro-zone's unified capital markets. Yesterday's issue offered that and so appealed to regions previously unenthusiastic about Belgium debt, such as Japan.

Belgium's domestic auctions typically ensure about 90 per cent of an issue stays in Belgium and Luxembourg. "Half the world does not know about Belgium credits," said a banker at ABN Amro, joint lead manager with Warburg Dillon Read and Generale Bank.

Belgium's debt is traditionally grouped with Austria, Portugal and Italy, which have launched international issues. Bankers said its bond was designed to make Belgium "head of the pack" of the non-triple A sovereign credits.

The bond was priced to yield 26 basis points over the 2009 bund and 17 basis points over the OAT. It narrowed by one basis point. Belgium debt trades slightly inside Italian and Portuguese paper and a little wider than Spanish debt.

Hungary launched its first euro-denominated bond, capturing positive sentiment for the country, which is seen as the region's leading contender for euro-zone membership in the next wave. The 10-year €500m bond, the first by an east European country in the euro, is a modest draw-down on Hungary's $1.8bn borrowing requirements for this year.

The issue was largely unaffected by the fall-out from Brazil and China, which has recently unnerved emerging markets. The issue was priced to yield 87 basis points over the German bund and traded unchanged.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Woolwich plc‡	300	(a)	99.96R	Feb 2004	0.15R	-	Morgan Stanley DW
Nordic Investment Bank(b)	150	5.875	103.698	Feb 2008	0.325	+62(4¾%Nov08)	Salomon Smith Barney
Tokheim•‡(d)	123	11.375§	100.00	Aug 2008	undisci	+670(9yr)	BT Alex Brown
■ EUROS(e)							
Kingdom of Belgium	5bn	3.75(s)	98.669R	Mar 2009	0.225R	+26(3¾%Jan09)	ABN/Generale/Warburg
GMAC	750	4.00	99.772R	Feb 2006	0.40R	+53(6%Jan06)	Deutsche/Merrill Lynch
Republic of Hungary	500	4.375	98.924R	Feb 2009	0.375R	+87(3¾%Jan09)	DG Bank/JP Morgan
Olivetti International NV(f)	250	5.00	99.723R	Feb 2009	0.375R	+139(Jan09)	Lehman Brothers Intl
European Inv'ment Bank(c)	100	7.00	101.875	Mar 2006	1.875	-	ASLK-CGER
Tokheim•‡(d)	75	11.375§	100.00	Aug 2008	undisci	+773(Jan09)	BT Alex Brown
■ STERLING							
Halifax plc	100	5.00	99.80R	Feb 2002	0.225R	+56(7%Jun02)	RBC DS Global Markets
■ CZECH KORUNA							
BGB Finance (Ireland)	2bn	7.75	100.005R	Feb 2000	0.15R	-	Deutsche Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. •Unlisted. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +10bp. b) Fungible with $500m. No accrued. c) Redemption linked to any fall in Dow Jones Stoxx 50; max par. d) Callable annually from 1/2/04. e) Spread relates to German govt bonds. f) €1.25bn launched on Monday increased to €1.5bn. s) Short 1st coupon.

NEWS DIGEST

ASSET-BACKED SECURITIES

International issuance in 1998 up 10% to $76bn

International issuance of asset-backed securities grew by 10 per cent to $76bn last year in spite of the near closure of the market in the past four months.

In a report, Moody's Investors Service predicts the market will grow by a further 20 per cent in 1999 to $93bn, spurred in part by the effects of European Monetary Union. Regulatory changes in Germany, Spain, Italy and elsewhere have made it easier for banks and other financial companies to secure future earnings flows against bond offerings, says the report.

Nevertheless, asset-backed issuance grew by only 2 per cent in Europe last year, although the low growth masked the fact that the volume of mortgage-backed bonds increased strongly with debut offerings from four European countries.

Japan posted the strongest growth with an 80 per cent increase in securitisation, including international collateralised loan obligations from leading Japanese banks and a number of deals secured against consumer finance assets. The crisis in the Japanese banking sector and the need for European banks to improve their returns on capital is likely to lead to strong growth in both regions in 1999, says the rating agency.

The report also suggests that emerging markets will increasingly tap the asset-backed sector, especially borrowers from Latin America and Asia: "More corporations will turn to securitisation as a more cost-effective source of funds – especially those with lower rates or from countries with lower sovereign ratings that might find traditional financing more expensive." Edward Luce

FUTURES

CBOT still plans Eurex vote

Officials at the Chicago Board of Trade, the biggest futures exchange, said yesterday they were still planning to go ahead with today's vote over a strategic alliance with Eurex, the all-electronic German-Swiss exchange and Europe's largest, in spite of the divisions that have emerged between David Brennan, new CBOT chairman, and other board members over the deal.

Members will be asked to vote on a specific pact – rather than the idea in principle – which would see the exchanges collaborate on the development of a new electronic trading system built around the Eurex technology, and then disseminate each other's products.

Mr Brennan flew to Germany last week to talk to Eurex officials, but on his return told members he could still not support the deal as structured. He has raised objections to the possible cost and is also seeking an arrangement that would allow the CBOT to keep greater control of the underlying technology. Most observers think the vote is likely to be close, and the result will not be known until late afternoon. Nikki Tait, Chicago

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 25	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.4619	4.70	-	-0.13	+0.10	-0.50
	08/08	8.750	129.6055	4.93	-	-0.27	-0.06	-0.91
Austria	07/00	3.875	104.0700	2.97	+0.02	-0.01	-0.37	-1.19
	01/08	5.000	108.9600	3.80	-	-0.05	-0.28	-1.39
[illegible]								

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

■ NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	113.30	113.30	-0.10	113.54	113.15	22,950	91,418

[illegible]

Euro

■ € BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	113.40	113.61	-0.21	113.90	113.40	4	197

US CORPORATE BONDS

Jan 25	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	106.2364	5.23	-0.01	-0.22	+5.23
NY Tel	08/08	7.00	A+	102.8987	6.69	+0.05	-0.22	+2.15
[illegible]								

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Jan 25	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ $								
EIB	04/07	7.250	AAA	111.2385	5.51	+0.02	+0.18	+0.88
ABN Amro	06/07	7.125	AA-	103.9556	6.49	+0.02	+0.13	+1.88
Quebec	01/07	7.000	A+	108.1516	6.03	+0.03	+0.13	+1.38
[illegible]								

UK BONDS

FTSE Actuaries Government Securities

UK Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا من الاصل

CURRENCIES & MONEY

Brazilian Real back in the limelight

MARKETS REPORT

By Florian Gimbel and Robert Chote

Brazil's fragile currency plunged to a new low on Tuesday, weighing heavily on the dollar. Following Monday's speculation over a possible devaluation of the Chinese renminbi, markets now seem to have shifted their focus back to Latin America.

The Real came under strong pressure during morning trading, following rumours over the imminent resignation of the finance minister and a possible debt moratorium. The spectre of capital controls, limiting the amount of dollars investors can take out of the country, also haunted the market. But officials instantly dismissed those rumours.

Moreover, Fitch IBCA, the ratings agency, cut its long-term foreign currency rating for Brazil on Tuesday from B-plus to B, saying the devaluation and subsequent floating of the Real complicated an already demanding external and domestic financial position.

The impact of rumours and bad news on the Real was particularly strong. "The market was so thin today that anything could have moved the currency," said Gene Frieda of the economic consultancy 4Cast in New York. He pointed out that markets were essentially testing the central bank's resolve to intervene.

But the central bank withstood the speculative onslaught, choosing not to intervene, which caused the Real to rebound. The dollar followed suit and edged back up against the yen from its Tuesday low of around Y113.3 to close at Y114.1 in London. It closed little changed against the euro.

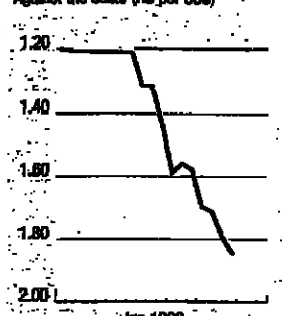
Many economists pointed at the danger of persistently high interest rates, which might jeopardise Brazil's ability to service its R$300bn domestic debt.

But with the currency still sliding, the government may have other issues to worry about. "In a country that has a history of hyperinflation, devaluation quickly leads to inflation, as price expectations are closely linked to the exchange rate," said Mr Frieda. The government will have to continue limiting the inflation pass-through by high interest rates. "Otherwise it will lose the benefits of devaluation," he added.

Meanwhile Francisco Lopes told the Senate committee considering his appointment as central bank president that Brazil should end the year with foreign exchange reserves of around $50bn, after drawing on a credit line from the IMF. He said that the current $36bn in reserves was "reasonably solid", following the loss of $8bn so far this month.

Brazilian real

Against the dollar (R$ per US$)



Source: Datastream/ICV

■ Emerging market currencies edged higher on Tuesday, buoyed by receding concerns about a Chinese currency devaluation, traders said. The South Korean won led the way, boosted by Standard & Poor's overnight upgrade of Korea's long-term foreign currency rating to BBB-minus.

Chinese officials reiterated their pledge not to devalue the renminbi. But some analysts are not convinced that the reassuring effect of such comments will last.

"We are going to see a devaluation within the next six to twelve months, irrespective of what the politicians are saying," according to James McKay, global markets strategist at Commonwealth Bank of Australia in London.

He added that China's comparative advantage vis-a-vis its Asian neighbours was eroding because of its relatively high exchange rate.

■ The Confederation of British Industry is never shy in arguing the virtue of lower UK interest rates. Its call yesterday for another half-point off base rates next week did little to spook the markets.

In fact interest rate expectations edged fractionally higher, continuing the trend established on Monday when Eddie George, the governor of the Bank of England, warned that the monetary policy committee might put rates up again if consumer confidence bounced back and the world economy turned out less depressed than it looked.

Short-sterling contracts edged 1 or 2 basis points lower for 1999 and 4 or 5 basis points lower for 2000, continuing to point to base rates of around 5 per cent next spring.

■ POUND IN NEW YORK

Jan 26	Latest	Prev. close
£ spot	1.6595	1.6570
1 mth	1.6582	1.6556
3 mth	1.6562	1.6538
1 yr	1.6528	1.6505

■ OTHER CURRENCIES

Jan 26	£	$
Czech Rp	52.4012 - 52.4792	31.5860 - 31.6140
Hungary	359.240 - 359.788	216.540 - 216.740
Iran	4980.00 - 4977.00	3000.00 - 3000.00
Kuwait	0.5009 - 0.5017	0.3019 - 0.3022
Peru	5.5226 - 5.5311	3.3290 - 3.3320
Poland	5.9858 - 5.9760	3.5960 - 3.6000
Russia	38.0741 - 38.2630	22.9500 - 23.0500
U.A.E.	6.0930 - 6.0973	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.7306	+0.0053	187 - 425	19.7513	19.6380	19.6862	2.7	19.6012	2.6	19.2623	2.4	103.1
Belgium*	(BFr)	57.8426	+0.0157	076 - 775	57.9830	57.5720	57.7124	2.7	57.4633	2.6	56.4698	2.4	103.1
Denmark	(DKr)	10.6623	-0.0011	549 - 697	10.6744	10.6147	10.6426	2.2	10.6075	2.1	10.4655	1.8	106.4
Finland*	(FM)	8.5255	+0.0024	203 - 306	8.5340	8.4850	8.5063	2.7	8.4696	2.6	8.3232	2.4	81.9
France*	(FFr)	9.4057	+0.0026	000 - 113	9.4155	9.3615	9.3845	2.7	9.344	2.6	9.1824	2.4	106.6
Germany*	(DM)	2.8044	+0.0007	027 - 061	2.8079	2.7906	2.7981	2.7	2.786	2.6	2.7379	2.4	104.5
Greece	(Dr)	461.341	+0.1530	953 - 729	461.756	460.282	463.214	-4.9	467.022	-4.9	479.891	-4.0	63.1
Ireland*	(I£)	1.1293	+0.0003	286 - 300	1.1305	1.1240	1.1268	2.7	1.1219	2.6	1.1025	2.4	94.9
Italy*	(L)	2776.38	+0.7600	470 - 805	2779.28	2763.36	2770.13	2.7	2758.17	2.6	2710.49	2.4	76.0
Luxembourg*	(LFr)	57.8426	+0.0157	076 - 775	57.9030	57.5720	57.7124	2.7	57.4633	2.6	56.4698	2.4	103.1
Netherlands*	(Fl)	3.1599	+0.0009	579 - 618	3.1631	3.1451	3.1528	2.7	3.1391	2.6	3.0849	2.4	102.6
Norway	(NKr)	12.3475	-0.0014	388 - 562	12.3878	12.2991	12.3717	-2.3	12.4062	-1.9	12.4572	-0.9	93.0
Portugal*	(Es)	287.467	+0.0788	294 - 641	287.772	286.120	286.82	2.7	285.592	2.6	280.644	2.4	92.5
Spain*	(Pta)	238.578	+0.0650	433 - 722	238.820	237.420	238.041	2.7	237.013	2.6	232.916	2.4	77.2
Sweden	(SKr)	12.7915	-0.0211	826 - 003	12.8466	12.7421	12.7642	2.6	12.7132	2.4	12.5216	2.1	83.3
Switzerland	(SFr)	2.3006	+0.0092	990 - 021	2.3050	2.2789	2.2917	4.7	2.2749	4.5	2.2126	3.8	107.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.2
Euro	(€)	1.4339	+0.0004	330 - 347	1.4355	1.4272	1.4306	2.7	1.4244	2.6	1.3999	2.4	-
SDR†	-	1.183040	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6593	+0.0021	588 - 598	1.6605	1.6544	-	-	-	-	-	-	-
Brazil	(R$)	3.1448	+0.1946	355 - 540	3.1550	2.8475	-	-	-	-	-	-	-
Canada	(C$)	2.5208	+0.0066	192 - 224	2.5266	2.5094	2.5189	0.9	2.5161	0.7	2.5086	0.5	78.7
Mexico	(New Peso)	16.9584	+0.0363	367 - 801	16.9895	16.8976	17.3838	-30.1	18.1875	-29.0	21.3525	-25.9	-
USA	($)	1.6595	+0.0021	590 - 600	1.6608	1.6550	1.6581	1.0	1.6562	0.8	1.6528	0.4	104.3
Pacific/Middle East/Africa													
Australia	(A$)	2.6327	+0.0092	308 - 345	2.6349	2.6120	2.6303	1.1	2.6264	0.9	2.6195	0.5	78.6
Hong Kong	(HK$)	12.8600	+0.0156	553 - 647	12.8700	12.8246	12.8597	0.0	12.8833	-0.7	13.1469	-2.2	-
India	(Rs)	70.5412	+0.0882	158 - 665	70.5800	70.3570	70.8144	-4.6	71.6263	-6.2	75.7189	-7.3	-
Indonesia	(Rupiah)	15184.45	-250.10	690 - 200	15654.90	14755.00	15644.44	-36.4	16727.62	-40.7	20577.57	-35.5	-
Israel	(Shk)	6.7811	+0.0119	709 - 912	6.7915	6.7522	-	-	-	-	-	-	-
Japan	(Y)	189.407	+0.5710	275 - 539	190.130	188.450	188.562	5.4	186.892	5.3	180.077	4.9	133.3
Malaysia	(M$)	6.3061	+0.0080	061 - 061	6.3107	6.2893	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.1013	+0.0027	975 - 051	3.1108	3.0845	3.0958	2.1	3.0865	1.5	3.0856	0.5	90.3
Philippines	(Peso)	63.8079	-0.4164	397 - 760	64.4895	63.5269	64.2293	-7.9	65.0944	-8.1	68.9254	-8.0	-
Saudi Arabia	(SR)	6.2233	+0.0070	211 - 255	6.2287	6.2083	6.2274	-0.8	6.2412	-1.1	6.3098	-1.4	-
Singapore	(S$)	2.7938	-0.0031	921 - 954	2.8033	2.7879	2.7837	4.4	2.7687	3.6	2.7226	2.5	-
South Africa	(R)	10.0234	+0.0086	038 - 430	10.1260	10.0020	10.1088	-10.2	10.2809	-10.3	11.0242	-10.0	-
South Korea	(Won)	1950.74	-4.1600	757 - 392	1969.50	1946.67	-	-	-	-	-	-	-
Taiwan	(T$)	53.6019	+0.0264	028 - 010	54.5141	53.4859	53.6155	-0.3	53.6691	-0.5	54.0466	-0.8	-
Thailand	(Bt)	60.9037	-0.2710	024 - 050	62.0780	59.7580	61.0108	-2.1	61.2379	-2.2	62.9719	-3.4	-

† Rates for Jan 25. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	11.8895	-0.0118	859 - 931	11.9054	11.8542	11.8726	1.7	11.8351	1.8	11.6543	2.0	102.9
Belgium*	(BFr)	34.8554	-0.0347	449 - 659	34.9060	34.7520	34.8058	1.7	34.6959	1.8	34.1661	2.0	103.1
Denmark	(DKr)	6.4250	-0.0068	225 - 275	6.4358	6.4062	6.4184	1.2	6.4047	1.3	6.332	1.4	105.5
Finland*	(FM)	5.1374	-0.0051	358 - 389	5.1444	5.1221	5.1301	1.7	5.1139	1.8	5.0358	2.0	81.2
France*	(FFr)	5.6678	-0.0056	660 - 695	5.6754	5.6509	5.6597	1.7	5.6418	1.8	5.5557	2.0	106.1
Germany*	(DM)	1.6899	-0.0017	894 - 904	1.6925	1.6849	1.6875	1.7	1.6822	1.8	1.6565	2.0	104.1
Greece	(Dr)	278.000	-0.2600	850 - 150	278.450	277.570	279.36	-5.9	281.985	-5.7	290.35	-4.4	62.8
Ireland*	(I£)	1.4696	+0.0015	691 - 700	1.4739	1.4675	1.4717	-1.7	1.4764	-1.8	1.4992	-2.0	-
Italy*	(L)	1673.02	-1.6600	251 - 353	1675.50	1668.05	1670.64	1.7	1665.37	1.8	1639.93	2.0	75.7
Luxembourg*	(LFr)	34.8554	-0.0347	449 - 659	34.9060	34.7520	34.8058	1.7	34.6959	1.8	34.1661	2.0	103.1
Netherlands*	(Fl)	1.9041	-0.0019	035 - 047	1.9073	1.8984	1.9014	1.7	1.8954	1.8	1.8664	2.0	102.4
Norway	(NKr)	7.4405	-0.0108	375 - 435	7.4657	7.4198	7.4612	-3.3	7.4908	-2.7	7.537	-1.3	92.2
Portugal*	(Es)	173.225	-0.1720	173 - 277	173.460	172.710	172.978	1.7	172.432	1.8	169.799	2.0	92.8
Spain*	(Pta)	143.765	-0.1430	721 - 808	143.960	143.340	143.56	1.7	143.107	1.8	140.922	2.0	76.8
Sweden	(SKr)	7.7080	-0.0225	050 - 110	7.7464	7.6917	7.698	1.6	7.6761	1.7	7.576	1.7	82.8
Switzerland	(SFr)	1.3863	+0.0038	858 - 868	1.3870	1.3745	1.3821	3.7	1.3735	3.7	1.3386	3.4	108.2
UK	(£)	1.6595	+0.0021	590 - 600	1.6608	1.6550	1.6581	1.0	1.6562	0.8	1.6528	0.4	99.7
Euro	(€)	1.1574	+0.0012	570 - 577	1.1610	1.1559	1.159	-1.7	1.1627	-1.8	1.1807	-2.0	-
SDR†	-	0.71362	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.8950	+0.1150	900 - 000	1.9000	1.7200	-	-	-	-	-	-	-
Canada	(C$)	1.5190	+0.0033	185 - 195	1.5235	1.5150	1.5191	-0.1	1.5192	0.0	1.5177	0.1	76.4
Mexico	(New Peso)	10.2190	+0.0090	090 - 290	10.2400	10.2000	10.484	-31.1	10.9815	-29.8	12.919	-26.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.6
Pacific/Middle East/Africa													
Australia	(A$)	1.5864	+0.0035	858 - 870	1.5876	1.5778	1.586	0.3	1.5856	0.2	1.5849	0.1	78.7
Hong Kong	(HK$)	7.7493	-0.0004	488 - 498	7.7506	7.7485	7.7555	-1.0	7.7788	-1.5	7.9543	-2.6	-
India	(Rs)	42.5075	-	050 - 100	42.5170	42.5020	42.7075	-5.6	43.2475	-7.0	45.8125	-7.8	-
Indonesia	(Rupiah)	9150.00	-162.50	000 - 000	9450.00	8810.00	9435	-37.4	10100	-41.5	12450	-36.1	-
Israel	(Shk)	4.0862	+0.0020	813 - 911	4.0920	4.0742	-	-	-	-	-	-	-
Japan	(Y)	114.135	+0.2000	090 - 180	114.800	113.580	113.715	4.4	112.84	4.5	108.95	4.5	135.0
Malaysia‡	(M$)	3.8000	-	000 - 000	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8688	-0.0007	671 - 706	1.8744	1.8622	1.867	1.2	1.8653	0.8	1.8657	0.2	-
Philippines	(Peso)	38.4500	-0.3000	000 - 000	38.9000	38.3000	38.738	-8.9	39.3035	-8.9	41.702	-8.5	-
Saudi Arabia	(SR)	3.7501	-0.0005	499 - 503	3.7508	3.7495	3.7557	-1.8	3.7684	-1.9	3.8176	-1.8	-
Singapore	(S$)	1.6835	-0.0040	830 - 840	1.6910	1.6830	1.6788	3.4	1.6717	2.8	1.6473	2.2	-
South Africa	(R)	6.0400	-0.0025	300 - 500	6.1000	6.0200	6.0985	-11.2	6.2075	-11.1	6.67	-10.4	-
South Korea	(Won)	1175.50	-4.0000	400 - 700	1190.10	1173.00	-	-	-	-	-	-	-
Taiwan *	(T$)	32.3000	-0.0250	500 - 500	32.3500	32.2400	32.335	-1.3	32.405	-1.3	32.7	-1.2	-
Thailand	(Bt)	36.7000	-0.2100	500 - 500	37.1000	36.0500	36.795	-3.1	36.975	-3.0	38.1	-3.8	-

† SDR rate per $ for Jan 25. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Jan 25: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member

The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Jan 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.00
Switzerland	[illegible]	1	[illegible]	[illegible]	[illegible]	-	1.00	-
US	5	[illegible]	[illegible]	[illegible]	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.73	4.73	4.73	4.75	-	-	-
Euro Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
Euro Euribor	-	3.134	3.080	3.020	2.984	-	-	-
EONIA	3.22	-	-	-	-	-	-	-
EURONIA	3.1970	-	-	-	-	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Jan 26	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	5 - [illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	5 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible] - 1	[illegible] - 2	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.040	97.010	-0.030	97.040	97.010	7,111	32,680
Jun	97.180	97.150	-0.035	97.180	97.150	4,854	19,521

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.030	97.010	-0.025	97.030	97.005	30271	61375
Jun	97.170	97.155	-0.020	97.190	97.150	27184	70532
Sep	97.220	97.205	-0.025	97.240	97.200	18333	37128
Dec	96.985	96.975	-0.020	96.995	96.970	11234	55876

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.025	97.010	-0.025	97.035	97.000	13904	174727
Jun	97.160	97.150	-0.020	97.180	97.150	22155	155122
Sep	97.220	97.205	-0.025	97.235	97.200	11362	133925
Dec	96.985	96.970	-0.025	96.985	96.970	4079	104291

■ EURIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	Calls Mar	Calls Jun	Calls Sep	Calls Dec	Puts Mar	Puts Jun	Puts Sep	Puts Dec
97125	0.015	0.030			0.130	0.145		
97250	0.005	0.010	0.065	0.085	0.245	0.250	0.160	0.180
97375	0	0.005			0.365	0.370		
97500	0	0	0.015	0.030	0.490	0.490	0.360	0.375

Est. vol. total, Calls 4293 Puts 650. Previous day's open int., Calls 18008 Puts 5775

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	Calls Mar	Calls Jun	Calls Sep	Calls Dec	Puts Mar	Puts Jun	Puts Sep	Puts Dec
97125	0.015	0.030			0.130	0.145		
97250	0.005	0.010	0.060	0.085	0.245	0.250	0.160	0.185
97375	0	0.005			0.365	0.370		
97500	0	0	0.075	0.030	0.490	0.490	0.365	0.380

Est. vol. total, Calls 23949 Puts 15403. Previous day's open int., Calls 343222 Puts 187462

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.680	98.660	-0.050	98.740	98.650	20762	83043
Jun	98.570	98.550	-0.050	98.630	98.550	7006	45254
Sep	98.460	98.440	-0.050	98.520	98.440	3334	29956
Dec	98.130	98.110	-0.050	98.190	98.110	1424	11340

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	99.37	-	-	-	0	n/a
Jun	99.48	99.48	+0.02	99.48	99.48	200	n/a
Sep	99.42	99.42	+0.05	99.42	99.42	10	n/a

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
98750	0.075	0.110	0.135	0.165	0.310	0.445
98875	0.035			0.250		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2825 Puts 2062

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	21.35	497.0	412.5	22.11	3.977	1.729	4.358	2.869	327.5	2.479
Denmark	(DKr)	54.25	10	8.821	2.630	1.059	2604	2.964	11.58	269.6	223.8	12.00	2.158	0.938	2.364	1.556	177.6	1.345
France*	(FFr)	61.50	11.34	10	2.982	1.201	2952	3.360	13.13	305.6	253.7	13.60	2.446	1.063	2.680	1.764	201.4	1.525
Germany*	(DM)	20.63	3.802	3.354	1	0.403	990.0	1.127	4.403	102.5	85.07	4.561	0.820	0.357	0.899	0.592	67.54	0.511
Ireland*	(I£)	51.22	9.442	8.329	2.483	1	2459	2.798	10.93	254.6	211.3	11.33	2.037	0.886	2.232	1.470	167.7	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.445	10.35	8.593	0.461	0.083	0.036	0.091	0.060	6.822	0.052
Netherlands*	(Fl)	18.31	3.374	2.977	0.888	0.357	878.6	1	3.908	90.97	75.50	4.048	0.728	0.316	0.798	0.525	59.94	0.454
Norway	(NKr)	46.85	8.635	7.617	2.271	0.915	2249	2.559	10	232.8	193.2	10.36	1.863	0.810	2.042	1.344	153.4	1.161
Portugal*	(Es)	20.12	3.709	3.272	0.976	0.393	965.8	1.099	4.295	100	82.99	4.450	0.800	0.348	0.877	0.577	65.89	0.499
Spain*	(Pta)	24.24	4.469	3.942	1.175	0.473	1164	1.324	5.176	120.5	100	5.362	0.964	0.419	1.057	0.696	79.39	0.601
Sweden	(SKr)	45.22	8.336	7.353	2.192	0.883	2170	2.470	9.653	224.7	186.5	10	1.799	0.782	1.971	1.297	148.1	1.121
Switzerland	(SFr)	25.14	4.635	4.088	1.219	0.491	1207	1.373	5.367	124.9	103.7	5.560	1	0.435	1.096	0.721	82.33	0.623
UK	(£)	57.84	10.66	9.406	2.804	1.129	2776	3.160	12.35	287.5	238.6	12.79	2.301	1	2.521	1.660	189.4	1.434
Canada	(C$)	22.95	4.230	3.731	1.113	0.448	1101	1.254	4.896	114.0	94.65	5.074	0.913	0.397	1	0.658	75.14	0.569
USA	($)	34.85	6.425	5.668	1.690	0.680	1673	1.904	7.441	173.2	143.8	7.708	1.386	0.603	1.519	1	114.1	0.864
Japan	(Y)	30.54	5.629	4.966	1.481	0.596	1466	1.668	6.519	151.8	126.0	6.753	1.215	0.528	1.331	0.876	100	0.757
Euro	(€)	40.34	7.436	6.560	1.956	0.788	1936	2.204	8.611	200.5	166.4	8.921	1.605	0.697	1.758	1.157	132.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5923	0.5934	+0.0011	0.5941	0.5919	4,915	58,347
Jun	0.5969	0.5969	+0.0017	0.5969	0.5965	19	1,489
Sep	-	0.5994	-0.0004	0.5994	-	15	153

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8833	0.8839	+0.0008	0.8881	0.8816	15,296	74,737
Jun	0.8935	0.8936	+0.0004	0.8935	0.8935	97	4,125
Sep	-	0.9034	-	-	-	50	1,494

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7247	0.7262	+0.0013	0.7278	0.7230	11,102	39,695
Jun	0.7334	0.7333	+0.0019	0.7334	0.7333	1	404
Sep	-	0.7394	+0.0018	0.7394	-	1	321

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6554	1.6586	+0.0038	1.6610	1.6552	3,383	49,120
Jun	1.6576	1.6568	+0.0044	1.6576	1.6568	3	1,311
Sep	-	1.6560	+0.0044	1.6560	-	260	230

UK INTEREST RATES

LONDON MONEY RATES

Jan 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 5	[illegible]	6 - [illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible] - 6	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	6 - [illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from Jan 7, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Jan 22. 5.2527pc. ECGD fixed rate Stlg. Export Finance. Make up day Dec 31, 1998. Agreed rate for period Jan 26, 1999 to Feb 25, 1999, Scheme III 7.74pc. Reference rate for period Dec 1, 1998 to Dec 31, 1998, Schemes IV & V 6.501pc. Finance House Base Rate 7pc for Jan 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.400	94.380	-0.030	94.450	94.370	40129	191878
Jun	94.700	94.690	-0.030	94.750	94.650	59249	192053
Sep	94.900	94.875	-0.045	94.940	94.830	59987	179810
Dec	94.680	94.680	-0.040	94.750	94.640	12302	139379
Mar	95.010	94.990	-0.050	95.070	94.970	14460	121354

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
94250	0.185	0.490	0.710	0.045	0.050	0.085
94375	0.115			0.100		
94500	0.060	0.305	0.520	0.170	0.115	0.145
94625	0.035			0.270		
94750	0.015	0.160	0.355	0.375	0.220	0.230
94875	0.010			0.495		

Est. vol. total, Calls 23048 Puts 32560. Previous day's open int., Calls 508038 Puts 527641

EMS EUROPEAN CURRENCY UNIT RATES

Jan 26	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	322.05	-	-8.80	9.29	59
Denmark	7.46038	7.4360	-0.0007	-0.33	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.69760	-0.0013	6.72	-6.61	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. 18/3/98. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Feb	Calls Mar	Calls Apr	Puts Feb	Puts Mar	Puts Apr
1.640	2.24	2.80	3.29	0.55	1.19	1.78
1.650	1.43	2.21	2.59	0.87	1.56	2.21
1.660	0.96	1.61	2.32	1.24	2.06	2.62

Previous day's vol., Calls 0 Puts 0. Prev. day's open int., Calls 482 Puts 1,463

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls Feb	Calls Mar	Calls Apr	Puts Feb	Puts Mar	Puts Apr
0.590	0.67	0.88	1.31	0.41	0.63	0.82
0.595	0.41	0.63	1.04	0.61	0.82	1.06
0.600	0.20	0.44	0.82	0.94	1.21	1.34

Previous day's vol., Calls 9 Puts 2. Prev. day's open int., Calls 403 Puts 3,560

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.07	95.06	-0.01	95.08	95.06	39,032	479,897
Jun	95.16	95.14	-0.02	95.19	95.15	52,712	417,848
Sep	95.18	95.17	-0.01	95.21	95.16	105,308	374,072

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.84	95.83	-0.01	95.84	95.83	49	2,174
Jun	-	95.85	-	-	-	2	108

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	●Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	6.00	Smith & Williamson	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	●SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00		
●Brown Shipley & Co Ltd	6.00	●Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.00		
The Co-operative Bank	6.00	NatWestminster	6.00		
Coutts & Co	6.00	●Rea Brothers	6.00		
Cyprus Popular Bank	6.25	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.00	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

Colombian earthquake pushes up coffee prices

MARKETS REPORT

By Paul Solman and Gillian O'Connor in London and Adam Thomson in Bogota

As Colombia struggled to clear up after Monday's earthquake, which shook the heart of its coffee-producing region and left hundreds of people dead, coffee prices rose on the London International Financial Futures and Options Exchange amid fears over supplies.

However, local officials denied the crop had been damaged and said production would be unaffected.

"There is no damage to the plantations whatsoever," said Antonio Cardona of the National Coffee Federation's regional committee in Risaralda, one of the two worst affected provinces.

Colombia is the world's largest coffee producer after Brazil, with total exports last year of 11.2m 60 kg sacks.

According to Juan Camilo Restrepo, the country's finance minister, approximately 50 per cent of Colombia's production comes from the area affected by the earthquake.

Liffe's most actively traded March contract for robusta coffee ended the day at $1,765 a tonne, up $33 from Monday's close.

World oil prices drifted again as the market awaited the weekly report from the American Petroleum Institute, which gives an indication of US stock levels.

In late trading on London's International Petroleum Exchange, the benchmark March contract for Brent blend was $10.63 a barrel against Monday's close of $10.85.

Meanwhile, the IPE held a board meeting to draft its formal response to merger proposals from its US counterpart, the New York Mercantile Exchange. No details of the discussions were released but both sides have indicated their desire to complete negotiations as soon as possible.

Base metal prices ended the day mixed on the London Metal Exchange, with only zinc and tin showing any real strength.

Aluminium continued to provoke most of the interest, partly because of a conference about the metal's prospects taking place in Florida.

Martin Squires of Rudolf Wolff argued that there was no end in sight to aluminium's malaise in the short term, and he thought that prices were likely to move lower.

Like most other analysts, Mr Squires sees a swelling market surplus and considers that any production cuts are unlikely to be sufficient to rebalance the aluminium market this year.

One effect of the surplus, said Mr Squires, is that consumers "have remained content to purchase a higher proportion of their metal requirement from the spot market rather than establishing forward positions in a falling market. This shift in buying activity is exacerbating the decline in aluminium and metal prices as a whole."

Producers have not in general been selling forward, and Mr Squires argued that producer sales would damp down any rise in aluminium prices in the short to medium term.

Cargill courts Capitol Hill

The largest private US company is hoping its controversial proposed acquisition of Continental's grain-trading operations will be approved by the Justice Department

By Nikki Tait in Chicago

It will be the largest corporate player in international grain markets – but just how powerful?

That was the question facing Cargill executives as they made their way to Capitol Hill yesterday to defend their company's proposed acquisition of Continental's grain trading operations.

The deal, which would unite the world's biggest and second biggest grain exporters, has been controversial from the outset. Within days of its announcement, the National Farmers Union, a large US producers' group, said it could compound the squeeze on small farmers.

Dan Glickman, the US agriculture secretary, called for regulatory scrutiny. The Justice Department began a formal anti-trust inquiry last November, and the Commodity Futures Trading Commission, the US futures industry regulator, has also been making inquiries.

Yesterday's hearing before a congressional sub-committee, meanwhile, came at the direct request of anxious senators. "Consolidation of agricultural businesses is a growing trend that should be examined," said Senator Dick Lugar, its chairman.

Until now, critics of the Cargill-Conti deal have tended to focus on the US operations, although to the extent that the merger has a bearing on grain futures prices or exports, implications could extend well beyond national boundaries. The European Union is also reviewing the transaction.

The deal adds Continental's US 83 grain-trading facilities to Cargill's 243. Mr Glickman said it also lifts Cargill's share of US corn exports to 42 per cent. Its share of wheat exports rises from 13 to 19 per cent; and its share of soyabean exports from 17 to 31 per cent.

However, the grain-trading business is anything but simple. Farmers deliver crops locally, so regional concentrations are also relevant. The same logic applies to export facilities.

Meanwhile, futures contracts carry specific delivery conditions, meaning concentration in certain areas becomes doubly sensitive as it raises the possibility of market/price manipulation.

Most observers agree that Illinois, in the heart of the US grain-belt, looms as the biggest obstacle. This is Conti's strongest area, where 30 – or more than one-third – of its US facilities are concentrated. It is also the area where there is the biggest overlap between the companies' existing facilities.

According to Cargill, the US's largest private company, there are 10 communities where both companies have duplicate operations, and four of these lie along the Illinois river.

This has added significance because the Illinois river will become a futures delivery point for corn and soyabeans next year under the Chicago Board of Trade's revamped system. According to an Iowa State University study of the deal, just two companies (Archer Daniels Midland, another large US agribusiness, and Cargill) would account for 80 per cent of capacity along the Northern Illinois river.

"Cargill's acquisition might not appear problematic if ADM was not so large," suggest the authors. "However, the combination of these two large players and their share of volume traded, not just storage capacity, in the futures market delivery area, may prompt closer examination."

Cargill thinks differently. It says the grain trading industry has excess capacity at present and the two companies' combined operations would account for only 6 per cent of total commercial storage in the US.

Even in Illinois, it claims there are plenty of alternative buyers and grain-handlers: "ADM is significant, but there are a lot of other competitors," said Dan Dye, a Cargill vice-president.

Asked how the network might be rationalised if the deal proceeds, Frank Sims, president of North American grain trading operations, says the company is still doing due diligence. But he does concede that Cargill might shutter a few overlapping Conti facilities for part of the year, and "maybe one or two" completely. However, he also adds that the merged group would be likely to retain "at least one facility, if not two" in most existing locations.

He also stresses that the rationale for the deal comes only partly from economies of scale. With widespread processing and milling facilities, Mr Sims points out that Cargill has an increased internal supply requirement.

Moreover, explosive growth in genetically modified crops in the US means farmers may demand more segregated storage facilities.

These industry dynamics, though, could cut both ways. One reason the deal has attracted such attention is that it comes when the US agricultural sector is consolidating, and its impact on farmers and prices is already a matter of debate.

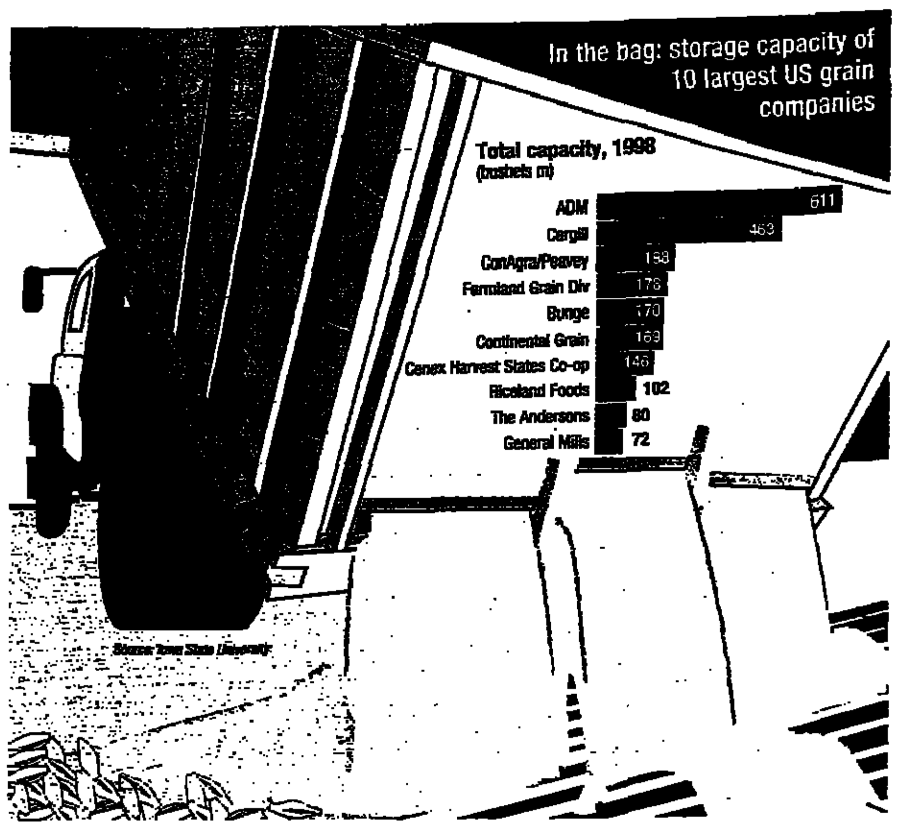
In addition, biotechnology developments seem to be reinforcing the power of the large agribusiness companies – meaning they may ultimately supply seeds, contract growers, and then handle the finished crops.

At yesterday's hearing, one economist – Robert Taylor, professor at Auburn University – told senators there was evidence that the economic power of big agribusiness giants had increased "dramatically" in the 1990s. He felt their market power was getting out of balance and favoured a few "closely knit global corporations".

But others thought the consolidation was being driven by low commodity prices. "While a painful transition for farms and firms that exit, consolidation is generally favourable for US agriculture," said Mark Drabenstott, director of the Center for the Study of Rural America.

So how would Mr Sims feel if the Justice Department attached conditions to its approval – a scenario some observers think likely?

"It's a little difficult to hypothesise. If there's a need to sit down with them, we will do that, but we're still fairly optimistic [the deal will be approved]."



US nut output hit by bad weather

By Paul Solman

Nut production in the US fell by a quarter last year, partly as a result of bad weather, according to the US Department of Agriculture.

The US is one of the world's leading nut growers. Total nut production was 903,000 tonnes, 25 per cent below the previous year's figure of 1.2m tonnes, but above the 1996 level of 825,000 tonnes, USDA said in its annual Non-citrus Fruits and Nuts Preliminary Summary.

Hazelnuts recorded the biggest fall in production, dropping 67 per cent to 15,500 tonnes, while pecans fell 54 per cent to 135m pounds.

Walnuts – of which the US is the world's biggest exporter – fell 18 per cent to 220,000 tonnes, while almonds dropped 31 per cent to 520m pounds.

Pistachios were the only tree nuts to increase production over the 1997 level, rising 4 per cent to 188m pounds.

Utilised production – the amount sold plus the quantities used at home or held in storage – dropped 22 per cent to $1.64m, USDA said.

Once again, hazelnuts recorded the biggest fall, of 64 per cent, in spite of the improved prices during the year.

Almonds were off 23 per cent, while macadamias and pistachios were off 18 per cent and 8 per cent respectively.

In spite of drastically lower production, utilised production of pecans was down only 26 per cent, USDA said, attributing the figure to sharply higher prices.

Meanwhile, utilised production of non-citrus fruits fell 13 per cent to $7.1bn, with grapes showing the biggest drop to 5.8m tonnes, 23 per cent below 1997's record level of 6.8m tonnes.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1207-8	1213-4
Previous	[illegible]	[illegible]

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	286.3	−1.7	288.1	285.9	44,830	59,263
Apr	288.1	−1.7	289.8	287.5	26,116	45,032
Jun	289.9	−1.7	291.4	289.2	1,585	19,794

[illegible]

ENERGY

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	75.25	−0.75	−	−	−	10
Mar	76.00	+0.75	76.00	75.50	70	2,561
May	77.40	+0.80	77.20	76.25	89	3,591

[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	895	+3	901	888	7,804	50,033
May	912	+3	920	906	6,399	30,830
Jul	932	+3	939	928	805	13,310

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Latest Price	Day's change	High	Low	Vol	Open int
Feb	62.800	−0.400	63.000	62.525	6,266	30,846
Apr	65.750	−0.550	66.150	65.550	5,706	42,110
Jun	64.675	−0.500	65.025	64.550	2,105	22,413

[illegible]

Jul	55.625	−0.375	55.900	55.050	275	3,976
Aug	55.675	−0.475	56.125	55.625	156	3,262
Oct	54.600	−0.625	55.050	54.500	191	3,330
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Latest Price	Day's change	High	Low	Vol	Open int
Feb	55.350	−0.400	56.500	54.300	1,138	3,903
Mar	56.275	−	56.900	55.050	601	1,434
May	57.250	−0.550	58.350	56.550	179	770
Jul	58.300	−0.725	58.250	57.175	13	778
Total						

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1150	66	5	95	15
1200	31	20	62	31
1250	11	49	37	56
■ COPPER (Grade A) LME	Mar	Jun	Mar	Jun
1450	31	43	75	62
1500	14	76	53	89
1550	6	117	36	121
■ COFFEE LIFFE	Mar	May	Mar	May
1600	169	123	5	48
1650	124	94	10	69
1700	86	70	22	95
■ COCOA LIFFE	Mar	May	Mar	May
900	19	46	24	34
925	10	35	40.	48
950	6	26	60	64
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1050	-	-	-	-
1100	-	-	53	-
1150	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$10.47-0.54x	-0.24
Brent Blend (dated)	$10.64-0.67	-0.41
Brent Blend (Mar)	$10.64-0.67	-0.29
W.T.I.	$12.17-2.18x	-0.335
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$118-120	-2
Gas Oil ‡	98-100	
Heavy Fuel Oil	$61-64	-1.5
Naphtha	$92-94	-2
Jet fuel	$112-115	-0.5
Diesel	$104-105	
■ NATURAL GAS (Pence/therm)		
Bacton (Feb)	[illegible]	[illegible]
■ OTHER		

[illegible]

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	412.50	+4.50	412.50	407.00	16	555
Jun	436.00	+3.75	436.00	436.00	10	227
Total					26	841

FUTURES DATA

All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa – There was good general demand. Brighter BP1s were easier with mediums down by 5-15 cents; lower mediums were discounted by 2-10 cents with more fibrous sorts often neglected. Plainer BP1s shed 2-5 cents. Brighter PF1s were irregular following quality and generally easier; mediums lost 5-15 cents while lower mediums and plainer descriptions declined by 5-10 cents. Selected best PDusts sold at last levels while other brighter sorts were irregular; mediums and lower mediums eased by 5-10 cents with plainer types down by 5-15 cents. Dust1s of all categories were easier.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jan 26	Jan 25	month ago	year ago
1454.0	1457.8	1476.1	1758.50

■ CRB Futures (Base: 1967 = 100)

Jan 25	Jan 22	month ago	year ago
188.54	189.75	–	–

■ GSCI Spot (Base: 1970 = 100)

Jan 25	Jan 22	month ago	year ago
133.45	135.25	130.66	169.64

LME WAREHOUSE STOCKS (tonnes)

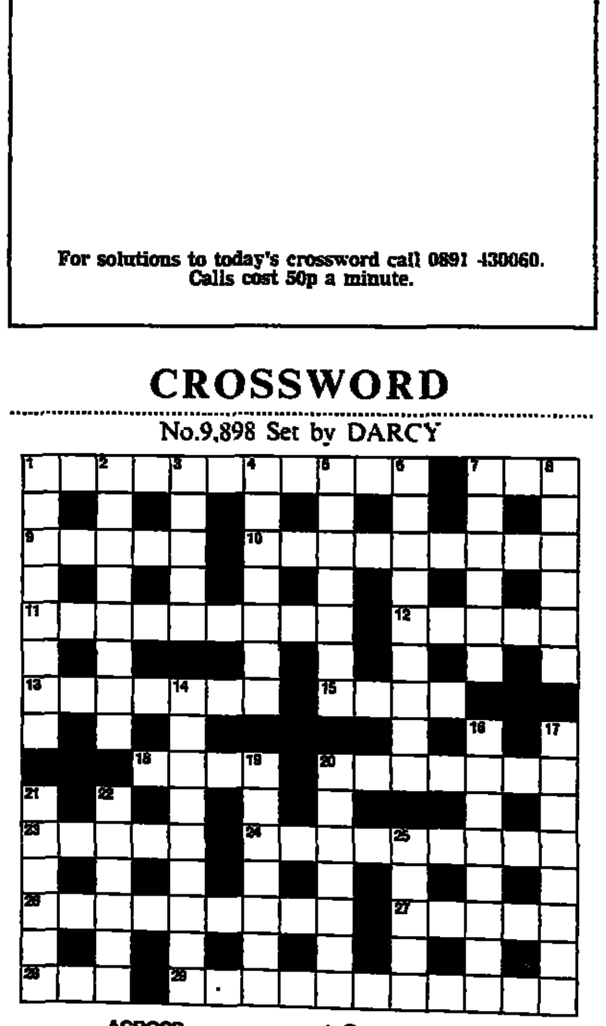
Aluminium	+1,108	to	782,875
Aluminium alloy	−160	to	56,060
Copper	+5,500	to	628,825
Lead	−50	to	105,800
Nickel	−186	to	66,304
Zinc	−1,325	to	315,800
Tin	−50	to	7,470

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,898 Set by DARCY



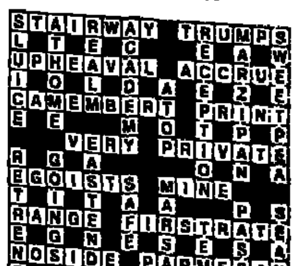
ACROSS

1 Go mad – hit single's No.1! (4,4,3)
7 Talk a lot, and miss end of horror film (3)
9 Do better than playing chicken (5)
10 Query a routine before English dance (9)
11 Against getting into violent exercise – no longer in the army (2-7)
12 Reported large crowd in a store (5)
13 Vacillations of doubter become unduly noticeable (7)
15 See attempt to dismiss striker (4)
18 Heard method to produce liquid residue (4)
20 Horseman with role in classic race? (7)
23 Being treated poorly, given this liquid lunch? (5)
24 Liquid – mead, it's said – served where document was signed (9)
26 Settle dispute involving referee's decision (9)
27 Get rotten, having tot with the French (5)
28 Rise in rent almost finalised (3)
29 Finds out about outing – drivers go over it carefully (6,5)

DOWN

1 Composer has part set up for graduate (8)
2, 22 Counterpart peer (8,6)
3 One's admitted being in possession (5)
4 Convert queries gentleman's title (7)
5 Attempt to incorporate old play, perhaps (7)
6 Bird that's stopped flying over carthorse (9)
7, 16 Dates arranged to deal with previous years' shortfall (6,8)
8 For many people, daughter coming late is not hard to handle (6)
14 Stuff to make comfortable furniture? (9)
16 See 7
17 Suddenly stop attending college, given icy reception? (6-2)
19 Spar with part of the London police force? (4-3)
20 Go with clean break? Clot! (7)
21 Dismayed silver is getting tarnished, at first (6)
22 See 2
25 Butler's second to identify this poet (5)

Solution 9,897



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BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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Barclays International Funds
PO Box 152, St Helier, Jersey CI 01534 812700

Gartmore Fund Managers Intl Ltd (z)
PO Box 278, 45 La Motte St, Jersey 01534 606666

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F
PO Box 657, New Street, St Helier Jersey 01534 604814

Lloyds Bank (CI) U/T Mgrs.
PO Box 311, St Helier, Jersey 01534 284242

Lloyds TSB Fund Managers (CI) Ltd
PO Box 533, St Helier, Jersey 01534 503002

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

SG Hambros Fund Managers (Jersey) Ltd

Standard Bank Fund Mngmt (Jersey) Ltd

For TSB Fd Mngrs (CI) Ltd see Lloyds TSB Fd Mngrs

WMB Asset Management (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

Fidelity Funds (u)
Kansallis Hse, Place de L'Etoile L-1021 Lux BP 2174

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg

Lloyds Bank Luxembourg
1, Rue Schiller, L-1016 Luxembourg 00 352 4022121

Lombard Odier Invest (u)
13 Southampton Place, London WC1A 2AJ

Manulife Global Fund (u) (z)
13 rue Goethe, L-1637 00 352 40 4646 237

Schroder International Selection Fd - Contd.

Scottish Equitable Intl Fund SICAV (u)

Sun Life Global Management Ltd (u)

Svenska Selection Fund SICAV

Templeton Global Strategy Funds (u)

Banque Internationale A Luxembourg - Contd.

Barclays Euro Funds

Barclays Liquidity Portfolio

Brunswick Russian Emerging Equities Trust

Bryan Garnier Asset Management

CB Fund International

CDC Asset Management Europe

Capel-Cure Myers Intnl Fd Sicav (u)

Carlson Investment Management

Citicorp Investment Bank (Luxembourg) SA

Citiselect SA

Julius Baer Group - Contd.

Scudder Global Opportunities Funds - Contd.

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

Barclays Global Investors Jersey Ltd

Barclays Intl Funds

Citibank (CI) Ltd

Citibank S.A.

Coutts (Jersey) Fund Managers Ltd

EBC Fund Managers (Jersey) Ltd

Fleming Group

Foreign & Colonial Mngmt (Jersey) Ltd

Investec Management Co (Jersey) Limited

Jupiter Asset Management (Jersey) Ltd

Lazard Investment Funds (CI) Ltd

Liberty International Asset Management

Lloyds TSB Fund Managers (CI) Ltd

Lombard Odier (Jersey) Ltd

Mercury Asset Mngt Channel Islands Ltd

Midland Bank Fund Managers (Jersey) Ltd

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

Aberdeen Fund Mgrs (Luxembourg) Ltd (u)

American Phoenix Investment Portfolios (u)

Bank Von Ernst & Cie AG

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

Comgest SA

Dean Witter

Den norske Bank

Dresdner RCM Global Investors (UK) Ltd

Dresdner RCM Select Fund (u)

Dresdnerbank Asset Management SA (u)

EFG Private Asset Management S.A.

F.T. Investment Management Ltd

Flemings Flagship Fund (daily dealing)

Foreign & Colonial Emerging Markets Ltd (u)

Frankfurt-Trust Investment

INVESCO International Limited (u)

Libra Navigator World Portfolio (u)

Mercury Asset Management

Morgan Global Fund (u)

PRESSA Worldwide Inv Portfolio Sicav (u)

Schroder International Selection Fd (u)

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Asian Master Fund (u) (z)

Aves Bank (Switzerland) Ltd

Banque Colbert S.A.

Banque Ferrier Lullin (Lux) SA

Banque Internationale A Luxembourg

Daiwa Japan Small Equity Fd (u)

Dicam Worldwide Investment Fund

Dresdner RCM European Bond Fund

Egypt Trust

Emerging Markets Brewery Fund SICAV

The European Asset Value Fund

FMG Mfr SICAV

Fidelity Investment (CI) Ltd

The First Korea Smaller Companies Fund

Fischer Francis Trees & Watts

Fleming Group

Formosa Fund

Fortis Investment Management Company SA (Umbrella Fund)

Foreign & Colonial Emerging Markets Ltd

Framlington Russian Investment Fund

Franklin Templeton Worldwide Funds

Fred Alger Management Inc.

GFI Luxembourg

Global Funds Management SA

Goldman Sachs

HSBC Global Funds

HYPO Capital Mngmt Invest Luxembourg SA

Henderson International Fund

INVESCO International Limited

Investissements Atlantiques SA

JP Morgan

Julius Baer Group

Julius Baer SA Luxembourg

Lloyds Bank Luxembourg

Leonard Odier Selection

Merrill Lynch Asset Management

Merrill Lynch Global Currency Bond Series

Merrill Lynch Int'l Investment Funds

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) S.A.

Nikko Capital Management

Nomura Asian Infrastructure Fd SICAV

Pan-Holding SA

Pictet Group

Regent Korea Emerging Growth Fund

Rosenberg Management SA

SCI/TECH SA

Scudder Global Opportunities Funds

Societe Generale Emcr Europe Asset Mgt

Standard Chartered Investment Fund SA

State Street Luxembourg SA

State Street Research & Management Co

Steinroe/Scudder Environmental Value Fd

TCW Luxembourg Funds

Target International Ltd

Templeton Emerging Asia

Templeton Russian & East European Debt Fd

Tower Fund

Tweedy, Browne Value Funds

UBS AG

Unit Financial Services SA Lux

Vesper Consult

"WINTERTHUR" Fund Mngmt Co (Lux) SA

WP Stewart Global Growth Fund

World Invest SICAV

World Trust Fund

OFFSHORE INSURANCES

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Albany International Assurance Ltd

Allied Dunbar International Assce Ltd (z)

CMI Insurance Co Ltd

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	Selling Price	Buying Price	+ or -	Yield Gross
CMI Ins Co Ltd/Clerical Med Life				
Clerical Medical Hse, Douglas, IoM 00 (44) 1624 [illegible]				
[illegible]				
Eagle Star Intl Life				
Eagle Star Hse, Athol St, Douglas, IoM 01624 [illegible]				
[illegible]				
Old Mutual International - Contd.				
[illegible]				
Old Mutual International (Ireland) Ltd				
50 Dawson Street, Dublin 2, Ireland 003531 [illegible]				
[illegible]				
Access Investment Management (HK) Ltd				
[illegible]				
Acciones y Valores de Mexico SA de CV				
Accival Jan 22	Pesos61.16			
Acuma Capital Management Limited				
Acuma Capital Partners I Ltd.	$71.51			
Advanced Asset Management Ltd				
[illegible]				
Alexandra Global Investment Fund I, Ltd				
[illegible]				
Alliance Capital				
[illegible]				
Allied Dunbar International Fund Mngrs (1000)F				
[illegible]				
Alpha Fund Management Ltd				
[illegible]				
The Americas Trust Bank				
[illegible]				
EGS Overseas Fund Ltd				
EGS Overseas Jul 31	$3277	3374	—	-
East Europe Development Fund Ltd				
Participating Shs NAV Jan 14	$26.9303		—	-
Edelweiss Portfolio Ltd				
1985 Swiss Franc Pfolio Ltd	SFr1200.51		—	
Edinburgh Fund Managers (Bermuda) Ltd				
[illegible]				
Global Asset Management - Contd.				
[illegible]				

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣	458½	+8	646	375	4,632	5.4	12.3
Bulmer (HP)		298	-8	412½	290	32	6.5	13.0
Burn Stewart		14½	...	32½	7	28	-	-
Diageo	♣N	692	-1½	*795	476	4,181	3.0	19.8
Glenmorangie A	†	675	...	900	675	-	2.7	18.3
B	†	817½	...	920	910	-	1.1	44.4
Highland		253	...	325	225	10	4.8	11.6
5¼pc Cv Sb Bd		97	+½	100½	90½	-	5.9	-
Kirin Y		781	+8	814½	457½	-	0.8	58.3
Matthew Clark	♣	242	...	284	115	-	6.7	8.2
Merrydown		28½	...	55½	18½	-	-	φ
Seagram C$		£27	+½	£28	£14	-	1.0	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries share indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]	[illegible]	[illegible]	[illegible]	–	6.0	6.2
Barlow R	♣	[illegible]	[illegible]	[illegible]	[illegible]	–	5.1	ϕ
Investec Group		[illegible]	–	[illegible]	[illegible]	–	–	–
Investec Hldgs		[illegible]	–	[illegible]	[illegible]	–	–	–
SA Breweries R	Z	[illegible]	–	[illegible]	[illegible]	–	3.9	13.9
Standard Bank R		[illegible]	–	[illegible]	[illegible]	–	3.1	–
Tiger Oats		[illegible]	–	[illegible]	[illegible]	–	2.8	12.4
Tongaat-Hulett R		333½	-6	754¼	287¾	–	6.2	6.0

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£57800xd	–	£61200	£47700	–	–	–

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
10 Group		1	–	3¼	0¾	–	–	–
AFA Systems		99	–	181	74½	–	–	–
AMCO		95	–	129½	93½	–	9.2	7.1
ATA	Z	115½	–	157½	115½	–	2.2	9.1
AdVal Group		45½	–	67½	45½	–	–	7.8
Access Plus	♣†	188	–	271	175	–	3.3	15.9
African Gold	♣	2½	–	7¼	2	–	–	–
Albemarle & Bond	♣	77½xd	-1	98½	37	–	1.6	21.1
Alkyrea	♣	25	–	43½	24½	–	–	–
Ambient Media		45½	–	162½	42½	–	–	–
Ambitious Pub Co	♣	114	+5	290	88½	–	–	14.7
Anglo Siberian Oil Co		98½	–	108½	98½	–	–	–
Anglo-Welsh	♣	102½	–	110	72½	–	3.6	8.5

AIM - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
VDC	♣	123½	–	235	122	–	5.8	10.6
VFG	♣	49	+½	84½	41½	–	2.6	10.3
Vi		19½	–	58½	15½	–	–	18.5
Victory Corpn	♣	8½	-½	38	8½	–	–	–
WML	♣	35½	–	85½	28	–	–	34.8
Weather Action		52½	–	97½	52½	–	–	–
Weeks Group	♣	2¼xd	–	5	2¼	–	6.1	9.8
West 175 Ents	♣	60	–	87	45	–	–	–
West Bromwich Albion		£115	–	£145	£95	–	–	13.3
Western Select	♣Z	8½	–	13	7¼	–	3.7	19.8
Westmount Energy	♣	18½	–	300	17½	–	–	ϕ
Willington	‡	77½	–	85	75	–	7.7	3.2
Winchester		63½	–	84½	55½	–	–	33.2
World Telecom	♣	73½	–	205	55	–	–	–
Xavier Computer		14¼	–	15	5½	–	–	13.6
Yeoman		58½	–	84	53½	–	–	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volumes table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available: see details below
- †† Rule 4.2(a) Issue incorporated non-listed companies.
- # Price at time of suspension
- . Indicated dividend yield after pending scrip and/or rights issue
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0805

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Merger fervour fails to support erratic Footsie

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

The stock market pendulum swung substantially yesterday as investors tried to assess the market's likely short-term direction.

But the FTSE 100 index finished delicately poised, and fractionally in the bulls' camp, thanks mainly to Wall Street's mostly positive opening.

On the plus side for London was the continuing liquidity story, with institutions still full of cash. Another positive factor was the ever-flowing stream of takeover stories, both actual and rumoured.

On the other side of the coin, the interest rate debate, viewed by many observers as the main driving force behind market sentiment over recent years, remained in the balance.

UK interest rates have fallen by 150 basis points over the past four months and there were strong expectations that a weakening domestic economy would prompt another reduction.

Those expectations were dented last week by a stronger-than-expected fourth-quarter gross domestic product figure, which led some to cast doubts on the chances of another rate reduction.

Yesterday's Confederation of British Industry manufacturing survey indicated a slight easing of the downside pressure on UK manufacturing, but the CBI still called for a further 50 basis cut in UK rates.

The other negative factor was the fear of another dose of currency and stock market weakness in Latin America and elsewhere.

At the close, the FTSE 100 was 4.8 ahead at 5,885.7, a move described as encouraging by some dealers, still concerned about the heavy sell-off that damaged sentiment at the end of last week.

That relatively sedate close masked a big swing in mood earlier in the day, when an initial surge of nearly 50 points in the FTSE 100 was gradually erased and replaced by a 58-point slide over lunchtime.

The early rally came as more bid stories swept across the market with most focused on the engineering sector and especially on LucasVarity, whose shares raced higher in the wake of the move by TRW of the US to counter the offer from Federal-Mogul.

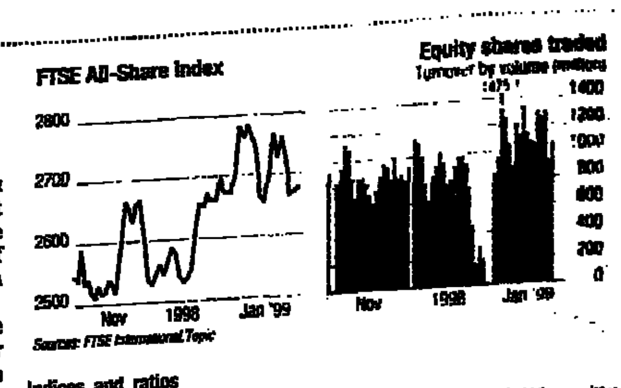
Second- and third-line stocks were never really threatened by the bouts of uncertainty affecting the leaders.

The FTSE 250 closed a net 21.6 higher at 4,856.8, having hit a session high of 4,866.4. The FTSE SmallCap, meanwhile, settled 3.6 ahead at 2,095.0, having got to within 3.5 of the 2,100 level.

Turnover in the equity market once more topped the 1bn shares mark, with non-FTSE 100 issues accounting for just over half the total. The cable/telecom sector continued to attract strong attention from the institutions in the wake of Microsoft's big investment in NTL.

And media stocks were heavily supported, led by Reed and Pearson, the group which owns the Financial Times.

The recently troubled general retail sector moves back into focus this morning with trading updates expected from Oasis, the fashion retail group, and W.H. Smith, whose shares have risen strongly on the back of its internet involvement.



Source: FTSE International/Topic

Indices and ratios

FTSE 100	5885.7	+4.8
FTSE 250	4856.8	+21.6
FTSE 350	2773.9	+3.9
FTSE All-Share	2676.66	+3.67
FTSE All-Share yield	2.92	2.93
FT 30	[illegible]	[illegible]
FTSE Non-Fins p/e	[illegible]	[illegible]
FTSE 100 Fut Mar	[illegible]	[illegible]
10 yr Gilt yield	4.40	[illegible]
Long gilt/equity yld ratio	1.48	1.48

Best performing sectors

1. Household Goods & Texts .... +5.4
2. Engineering: Vehicles .... +5.1
3. Retailers: General .... +1.8
4. Media .... +1.8
5. Tobacco .... +1.6

Worst performing sectors

1. Oil Integrated .... -1.8
2. Resources .... -1.8
3. Insurance .... -0.8
4. Other Financial .... -0.7
5. Banks, Retail .... -0.6

Reed Int shoots higher

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Reed International led the media sector higher as a broker recommendation combined with speculation that the management void might soon be filled.

The shares shot up 29½ to 530p, with Henderson Crosthwaite pointing out that the company was the UK's most undervalued internet play.

Analyst Louise Barton said: "Reed has been beavering away with a huge number of internet developments which the market has failed to appreciate."

She said the publisher had developed 15 value-added internet sites to complement its array of magazines.

Lorna Tilbian, at WestLB Panmure, agreed that Reed was seriously undervalued, but said: "This is a market which is chasing earnings growth."

She pointed out that growth was restrained by the lack of leadership since the departures of Nigel Stapleton and Herman Bruggink, co-chairmen.

However, there was strong speculation later in the day that Reed has appointed a couple of senior executives from Simon & Schuster, the US group which sold its educational and specialist publishing arm to Pearson last year.

Pearson, meanwhile, surprised many media analysts as the group, which owns the Financial Times, jumped 64 to a new closing high of £13.91.

Comments on Monday that Pearson is to put several of its reference and business and professional publishing operations up for sale, as well as news of a proposed joint venture with two German companies to publish a German-language edition of the Financial Times, helped the stock.

However, dealers said many media blue chips were being driven by a non-specific internet frenzy and even smaller publishers were being sucked in.

Euromoney jumped 200 to £15.87 after announcing it was buying an 80 per cent interest in Internet Securities, provider of emerging markets, financial, economic and company information. However analysts expect the acquisition to dilute earnings by 18 per cent.

Directors at Abbey National were apparently cracking open the champagne last night. A rise in the share price of 16 to £13.21 seemed on the surface to be a thin excuse for a party but it took the company's market capitalisation above that of Halifax.

The rise was seen as a reflection of a first-class management outgunning the UK's largest mortgage lender and one of its biggest banks. Halifax, which has suffered leadership problems, shed 1½ to 755p.

Consumer products group Reckitt & Colman joined the growing list of leading bid targets. The shares rose 63 or nearly 9 per cent to 780½p, making them one of the best Footsie performers.

Last week, ABN Amro was said to have picked up chunks of stock believed to amount to about 14m of the company shares, paying 740p a share.

The shares fell to a 12 month low following the purchase of the stock. However, talk that the holding may be used by a predator to launch a bid for the group did the rounds in the market yesterday, prompting a sharp recovery in the shares.

Vodafone, which is taking over US group AirTouch, was a busy trade as Dresdner Kleinwort Benson, reiterated its positive stance. Turnover was 20m as the shares improved 12 to 159¼p. Following a meeting with the company on Monday, analyst Jonathan Lewis set a six-month share price target for the merged group of £14.

Telewest was also in demand following several recommendations. The shares gained 17 to 267¾p, with 17m having been dealt by the close. Dresdner Kleinwort Benson favours the stock while Morgan Stanley Dean Witter included it in a "buy" list of European telecom stocks.

Sentiment was enhanced by news this week that Microsoft is to invest more than £300m in NTL, the third largest UK cable television network operator, to accelerate deployment of high-speed voice, data and video services in Britain. The move is seen as positive for all cable-related companies.

BT bucks trend

BT bucked the trend, declining 6 to 943¼p. Dresdner Kleinwort Benson is a seller and suggests a large part of the group's revenues are under pressure and the company will have to look to new areas.

Bank of Scotland and Royal Bank of Scotland were two of the Footsie's biggest fallers, sliding 27½ to 751½p and 25 to £10.00½. They both suffered from Monday's announcement of an industry review, which will focus on the supply of credit for small business.

The best performer in the Footsie for a second day was LucasVarity, up 42 to 286p or more than 17 per cent in busy trade of 49m.

Traders said investors believed any deal was likely to be in the region of 290p-300p a share, which explained why LucasVarity stock remained firmly above the 280p price mentioned by Federal-Mogul in a statement late on Monday.

Among a stream of positive analyst comment following reports that vehicle components groups Federal-Mogul and TRW of the US had approached LucasVarity, Morgan Stanley raised its target price on the stock from 230p to 300p and reiterated its "outperform" stance. Mercury Asset Management said it had sold 2m shares on Monday at about 240p.

Filtronic continued to benefit from strong results, rising 64 to 749p, the best performance in the FTSE 250.

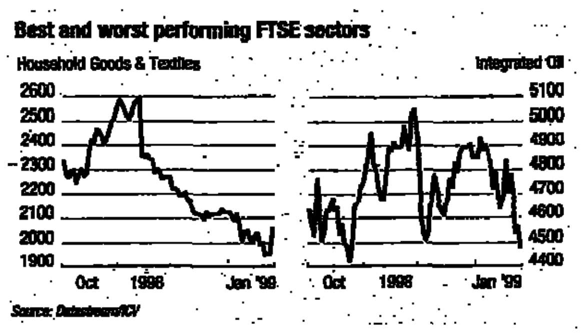
London International Group rose 9 to 172½p, basking in the approach it revealed on Monday.

Plant hire group Aggreko lifted a penny to 184½p as Merrill Lynch moved from "neutral" to "buy" and set a 12-month price objective of 221p.

Amid talk of imminent corporate activity in the engineering sector, Senior Engineering gained 7 to 105½p with the rise attributed to an analysts' trip tomorrow to the company's operation in South Wales.

British Aerospace rose 9½ to 437p as it sought to play down the idea it was close to selling its 5 per cent stake in mobile telecoms group Orange, up 17 to 891p. GEC gained 1½ to 558½p.

Portsmouth & Sunderland Newspapers gained 50 to £17, above the £16 tender offer price from Johnston Press. Johnston rose 2½ to 223p.



Source: Datastream/ICV

FT 30 INDEX

	Jan 26	Jan 25	Jan 22	Jan 21	Jan 20	Yr ago	*High	*Low
FT 30	3483.6	3448.7	3423.9	3492.2	3514.2	3305.7	4004.9	2790.6
Ord. div. yield	2.96	2.98	2.99	2.93	2.904	3.31	4.22	2.72
P/E ratio net	22.64	22.53	22.40	22.91	23.084	21.40	26.41	15.80
P/E ratio nil	22.55	22.43	22.31	22.82	22.989	21.22	25.19	15.71

FT 30 since compilation: high 4091.9 7/15/98; low 49.4 6/26/40. Base Date 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3448.7	3500.3	3486.7	3474.3	3450.3	3466.8	3477.9	3486.6	3501.9	3447.6

STOCK MARKET TRADING DATA

	Jan 26	Jan 25	Jan 22	Jan 21	Jan 20	Yr ago
SEAQ bargains	66,292	66,851	71,841	80,038	81,839	70,839
Equity turnover (£m)†	-	3640.4	5079.3	4871.5	5138.7	3081.9
Equity bargains†	-	57,021	63,726	66,244	70,432	57,208
Shares traded (m)†	-	909.1	1168.4	1108.1	1094.9	856.4
Total market bargains‡	-	66,863	75,428	78,990	82,863	-
Total turnover (£m)‡	-	4548.8	6211.1	6086.0	6377.1	-
Total shrs traded (m)‡	*1065.8	1103.5	1420.6	1329.6	1319.7	-
Tradepoint turnover (£m)	48.7	23.7	35.0	69.0	43.3	11.9
Tradepoint shrs traded(m)	17.2	9.2	15.9	28.8	10.5	3.5

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	740	Total Highs	43	Total contracts	32,448
Total Falls	561	Total Lows	73	Calls	17,802
Same	1,574			Puts	14,646

Jan 26 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5960.0	5890.0	-15.0	5974.0	[illegible]	[illegible]	[illegible]
Jun	5934.0	5928.5	-14.5	5934.0	5923.5	[illegible]	[illegible]
Sep	-	5971.5	-14.5	-	-	[illegible]	[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

Africa (9)	1054.85	0.0	1054.54	1238 [illegible]
Australasia (9)	1178.38	-1.5	1196.33	1221.6 [illegible]
Americas (11)	902.21	0.0	902.64	1071.3 [illegible]

 Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. [illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Jan 26	Day's chge%	Euro Index	£ Stg Jan 25	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5885.7	+0.1	6577.6	5880.9	5326.3	2.78	2.38	1.89	23.80	1.66	2606.66
FTSE 250	4856.8	+0.4	5427.8	4835.2	4789.2	3.43	2.95	2.15	16.96	3.36	2114.29
FTSE 250 ex Inv Tr	4856.6	+0.4	5427.6	4836.0	4822.5	3.59	3.09	2.23	15.64	3.40	2123.58
FTSE 350	2773.8	+0.1	3099.9	2770.0	2544.3	2.88	2.46	1.94	22.43	1.03	2511.15
FTSE 350 ex Inv Tr	2779.4	+0.1	3106.1	2775.8	2549.3	2.89	2.48	1.95	22.20	1.03	1290.71
FTSE 350 Higher Yield	2530.7	-0.3	2828.2	2538.4	2541.3	4.08	3.48	1.84	16.66	0.89	1967.21
FTSE 350 Lower Yield	3034.7	+0.6	3391.4	3017.8	2562.4	1.72	1.49	2.17	33.53	1.19	2222.95
FTSE SmallCap	2094.99	+0.2	2341.29	2091.43	2356.52	3.88	3.20	2.06	15.65	3.18	1853.00
FTSE SmallCap ex Inv Tr	2055.56	+0.1	2297.22	2052.66	2365.81	4.13	3.42	2.18	13.89	3.12	1838.78
FTSE All-Share	2676.66	+0.1	2991.34	2672.99	2482.06	2.92	2.50	1.95	21.98	1.14	2459.63
FTSE All-Share ex Inv Tr	2686.23	+0.1	3002.04	2682.74	2489.16	2.94	2.51	1.96	21.67	1.12	1270.09
FTSE Fledgling	1179.52	+0.1	1318.19	1177.94	1283.64	4.22	3.43	1.38	21.52	1.48	1329.85
FTSE Fledgling ex Inv Tr	1190.33	+0.1	1330.27	1189.44	1307.53	4.82	3.91	1.42	18.26	1.55	1349.60
FTSE All-Small	1194.76	+0.2	1335.22	1192.82	1334.92	3.95	3.25	1.90	16.61	1.75	1348.97
FTSE All-Small ex Inv Tr	1195.89	+0.1	1336.49	1194.37	1359.16	4.27	3.52	2.00	14.60	1.77	1360.51
FTSE AIM	827.8	+1.1	925.1	818.8	976.9	1.28	1.02	0.94	80.00†	0.43	770.16

■ FTSE Actuaries Industry Sectors

	£ Stg Jan 26	Day's chge%	Euro Index	£ Stg Jan 25	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	3835.67	-1.8	4286.62	3899.56	4297.59	3.78	3.29	1.18	28.10	0.00	1790.04
12 Extractive Industries(6)	2698.51	-0.4	3015.76	2710.25	2910.43	5.01	4.64	2.06	12.10	0.00	870.39
15 Oil, Integrated(3)	4481.74	-1.8	5008.64	4563.67	4735.83	3.63	3.14	1.06	32.37	0.00	2150.51
16 Oil Exploration & Prod(9)	1219.37	-0.3	1362.72	1223.39	3339.71	4.57	3.99	0.97	28.23	0.00	763.62
20 GEN INDUSTRIALS(192)	1710.23	+1.0	1911.30	1692.78	1862.15	4.27	3.80	2.24	13.06	1.06	1024.25
21 Construction(37)	1162.64	+0.2	1299.33	1160.10	1293.66	4.39	3.57	3.03	9.39	0.46	1055.15
22 Building Matls & Merchs(24)	1428.14	+0.1	1596.04	1426.67	1592.68	5.29	4.56	2.12	11.15	0.33	796.79
23 Chemicals(20)	1765.75	+0.4	1973.34	1758.86	2437.27	5.15	4.86	1.84	13.15	0.52	918.26
24 Diversified Industrials(4)	1062.33	+0.8	1187.22	1054.03	1234.82	6.17	5.44	1.08	18.75	0.00	674.27
25 Electronic & Elect Equip(25)	2840.89	+0.6	3174.88	2823.59	2096.45	2.69	2.29	1.89	23.33	0.00	1592.05
26 Engineering(54)	2113.54	+1.0	2362.02	2092.78	2496.19	4.57	4.10	2.23	12.26	2.82	1393.05
27 Engineering, Vehicles(10)	3792.58	+5.1	4238.45	3609.37	3301.35	2.36	2.16	3.34	16.38	0.00	2113.20
28 Paper, Pckg & Printing(18)	1527.89	+0.9	1707.52	1513.93	1987.18	6.84	6.35	2.36	7.74	2.42	708.72
30 CONSUMER GOODS(82)	6123.69	-0.1	6843.63	6128.17	5346.82	2.21	2.02	1.93	28.37	0.28	2449.40
32 Alcoholic Beverages(5)	3565.00	+0.1	3984.12	3561.83	3202.99	3.47	3.22	2.13	16.94	0.34	1429.27
33 Food Producers(26)	3473.73	-0.4	3882.12	3488.36	3458.35	2.59	2.24	2.31	20.95	0.10	1702.80
34 Household Goods & Texts(14)	2058.20	+5.4	2300.17	1952.05	3104.36	4.97	4.49	1.96	12.81	0.80	884.12
36 Health Care(14)	2439.34	-0.5	2726.12	2450.40	2389.51	2.12	1.95	2.11	27.99	1.36	1576.28
37 Pharmaceuticals(20)	11252.16	-0.3	12575.04	11288.86	9378.88	1.54	1.48	1.62	50.03	0.08	4054.83
38 Tobacco(3)	7691.66	+1.6	8595.94	7569.79	4871.47	4.47	3.73	2.04	13.71	0.00	2191.65
40 SERVICES(287)	3666.61	+0.9	4097.68	3634.33	2950.92	2.34	1.94	2.10	25.41	3.93	2042.09
41 Distributors(26)	1787.07	+0.6	1997.17	1776.81	2366.13	5.30	4.41	2.02	11.67	1.12	717.96
42 Leisure & Hotels(31)	3119.33	+1.3	3486.06	3078.76	3333.86	2.94	2.61	2.87	14.85	15.14	1790.70
43 Media(47)	4825.14	+1.8	5392.41	4741.19	4004.15	2.15	1.82	2.14	27.21	0.09	1844.33
44 Retailers, Food(13)	2665.71	+0.5	2979.10	2653.62	2861.18	3.42	2.75	2.17	16.83	0.07	1838.50
45 Retailers, General(42)	2031.21	+1.8	2270.01	1994.98	2259.87	3.68	2.96	2.09	16.28	5.17	1259.79
46 Telecommunications(7)	6056.95	+0.7	6769.04	6013.73	3125.16	1.49	1.22	1.59	53.02	4.13	2987.74
47 Breweries, Pubs & Rest.(23)	3541.53	-0.3	3957.89	3553.30	3656.27	3.55	2.88	2.21	15.92	12.80	1844.36
48 Support Services(69)	4845.89	-0.1	5415.38	4849.91	3868.82	1.30	1.11	2.78	34.67	0.57	3212.04
49 Transport(29)	3455.56	+1.1	3861.81	3417.65	2845.13	3.02	2.55	2.07	19.99	2.51	1561.34
60 UTILITIES(20)	4224.00	+0.6	4720.60	4198.98	3767.05	3.79	3.21	1.67	19.67	0.00	2055.19
62 Electricity(7)	4880.81	+1.1	5454.63	4826.84	4233.96	4.13	3.37	1.71	17.65	0.00	2915.69
64 Gas Distribution(2)	3364.94	+0.5	3760.54	3348.10	2873.30	2.01	1.61	‡	‡	0.00	1961.43
68 Water(11)	3317.35	-0.4	3707.38	3329.51	3263.06	5.05	4.66	2.39	10.42	0.00	2091.59
69 NON-FINANCIALS(599)	2748.99	+0.3	3072.16	2740.55	2469.58	2.83	2.45	1.89	23.39	1.48	2269.77
70 FINANCIALS(120)	5015.77	-0.4	5605.45	5037.09	5104.06	3.28	2.72	2.16	17.60	0.15	2348.89
71 Banks, Retail(12)	7405.25	-0.6	8275.85	7450.5E	7419.05	3.48	2.77	2.14	16.87	0.00	2625.35
73 Insurance(21)	2209.55	-0.8	2469.32	2226.55	2334.28	3.22	3.03	1.91	20.39	0.12	1652.74
74 Life Assurance(6)	7706.31	+0.5	8612.31	7664.90	6566.11	2.50	2.16	2.70	18.53	0.00	3473.96
77 Other Financial(31)	3588.88	-0.7	4010.81	3615.69	3931.12	3.06	2.55	2.53	16.02	0.87	2217.47
79 Property(48)	1644.05	+0.1	1837.34	1641.95	2348.01	3.80	3.24	1.60	20.51	0.29	1095.80
80 INVESTMENT TRUSTS(117)	3628.19	+0.4	4054.74	3614.28	3451.04	2.31	1.90	1.15	46.98	2.92	1335.68
89 FTSE All-Share(836)	2676.66	+0.1	2991.34	2672.99	2482.06	2.92	2.50	1.95	21.98	1.14	2459.63
105 FTSE All-Share ex Inv Tr(719)	2686.23	+0.1	3002.04	2682.74	2489.16	2.94	2.51	1.96	21.67	1.12	1270.09
Information Technology	1612.43	+0.9	1802.00	1597.68	1153.86	0.59	0.47	4.22	50.50	0.17	1621.06

■ Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5893.8	5927.5	5891.5	5878.2	5826.3	5855.4	5875.6	5883.9	5927.8	5822.9
FTSE 250	4840.7	4855.9	4864.0	4868.1	4857.8	4855.9	4853.6	4852.5	4866.4	4840.7
FTSE 350	2775.7	2790.5	2776.7	2770.8	2750.1	2761.6	2769.5	2772.7	2790.7	2748.9
FTSE SmallCap	2094.46	2096.30	2096.00	2095.13	2094.94	2094.80	2094.24	2094.91	2096.46	2091.94
FTSE All-Share	2678.36	2692.15	2679.44	2673.91	2654.92	2665.46	2672.66	2675.67	2692.35	2653.79

Time of FTSE 100 Day's high: 0NA Day's low: 0NA. FTSE 100 1998 High: 6179.0 (20/01/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 10:03:00 Day's low: 12:58:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2106.07 (05/10/98)

Further information is available on http://www.ftse.com.
 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.
Deletion: Steel Burrill Jones (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

صكرا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Jan 26) 1 € = 13.7603 Sch

BELGIUM/LUX (Jan 26) 1 € = 40.3399 Frs.

FINLAND (Jan 26) 1 € = 5.94573 Mka

FRANCE (Jan 26) 1 € = 6.55957 Frs.

GERMANY (Jan 26) 1 € = 1.95583 Dm.

IRELAND (Jan 26) 1 € = 0.78756 Punt

ITALY (Jan 26) 1 € = 1936.27000 Lira

NETHERLANDS (Jan 26) 1 € = 2.20371 Fl.

PORTUGAL (Jan 26) 1 € = 200.48200 Esc.

SPAIN (Jan 26) 1 € = 166.38600 Pts.

EUROPE (NON-EMU)

CZECH REP (Jan 26 / Koruna)

DENMARK (Jan 26 / Kr)

GREECE (Jan 26 / Drachma)

NORWAY (Jan 26 / Kroner)

POLAND (Jan 26 / Zloty)

SWEDEN (Jan 26 / Kronor)

SWITZERLAND (Jan 26 / Frs.)

TURKEY (Jan 26 / Tk Lira)

PACIFIC

JAPAN (Jan 26 / Yen)

HONG KONG (Jan 26 / H.K.$)

INDONESIA (Jan 26 / Rupiah)

MALAYSIA (Jan 26 / MYR)

NEW ZEALAND (Jan 26 / NZ $)

SINGAPORE (Jan 26 / S$)

SOUTH KOREA (Jan 26 / Won)

TAIWAN (Jan 26 / TW $)

THAILAND (Jan 26 / Baht)

AUSTRALIA (Jan 25 / Aust$)

AFRICA

SOUTH AFRICA (Jan 26 / Rand)

AMERICAS

CANADA

TORONTO (Jan 26 / Can $) 4 pm close

MONTREAL (Jan 26 / Can $) 4 pm close

MEXICO (Jan 26 / Peso) 12.30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JANUARY 25 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JANUARY 22 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	205.75	-1.2	184.06	148.18	204.91	216.61	-0.9	3.39	208.23	186.62	150.21	207.02	218.57	219.96	163.66	202.50
Austria (21)	165.58	0.2	148.13	119.25	145.52	145.52	0.4	2.40	165.27	148.12	119.23	144.99	144.99	253.73	165.27	194.44
Belgium (22)	405.36	-0.9	362.62	291.93	348.77	348.77	-0.7	1.93	409.04	366.59	295.08	351.34	351.34	446.95	265.09	265.60
Brazil (32)	93.54	-5.1	83.68	67.37	93.16	306.48	-0.0	2.95	98.52	88.30	71.07	97.95	306.48	269.34	89.32	217.89
Canada (116)	207.42	0.9	185.55	149.38	206.57	227.65	0.7	1.73	205.48	184.15	148.23	204.29	226.15	248.78	159.94	203.18
Denmark (34)	492.29	0.6	440.39	354.54	490.29	430.78	0.8	1.63	489.51	438.71	353.13	486.68	427.50	537.33	420.12	466.33
Finland (29)	624.77	0.1	558.91	449.96	674.27	674.27	0.3	1.49	624.17	559.39	450.27	672.45	672.45	661.25	291.57	293.31
France (75)	327.00	0.4	292.53	235.50	291.01	291.01	0.6	2.16	325.77	291.97	235.01	289.42	289.42	354.45	238.65	238.65
Germany (55)	273.75	-0.8	244.89	197.15	240.74	240.74	-0.6	1.35	275.97	247.33	199.08	242.27	242.27	325.61	226.35	231.52
Greece (36)	372.48	-2.6	333.22	268.26	370.97	742.99	-2.5	1.14	382.31	342.64	275.80	380.10	762.35	388.53	211.47	-
Hong Kong, China (67)	282.75	-2.6	252.95	203.64	281.60	281.32	-2.6	4.35	290.37	260.24	209.47	288.69	288.88	382.55	196.64	289.81
Indonesia (26)	40.88	-5.9	36.57	29.44	40.71	233.52	-2.1	1.31	43.43	38.92	31.33	43.18	238.44	64.52	19.04	27.87
Ireland (16)	574.81	0.5	514.22	413.98	551.70	551.70	0.6	1.77	572.13	512.75	412.73	548.18	548.18	605.85	396.15	419.02
Italy (53)	168.51	-0.4	150.75	121.36	210.76	210.76	-0.2	1.32	169.13	151.58	122.01	211.17	211.17	192.64	126.91	127.60
Japan (445)	100.43	0.2	89.84	72.33	100.02	72.33	0.1	1.03	100.21	89.81	72.29	99.63	72.29	109.73	76.83	104.01
Mexico (29)	1044.01	0.3	933.96	751.89	1039.77	11654.32	0.4	2.20	1040.98	932.95	750.96	1034.96	11609.20	1733.73	787.15	1550.40
Netherlands (26)	501.10	0.7	448.28	360.89	435.92	435.92	0.9	2.17	497.45	445.82	358.86	431.99	431.99	582.73	394.92	411.34
New Zealand (18)	63.77	-1.6	57.05	45.93	63.51	63.31	-1.1	4.61	64.82	58.10	46.76	64.45	64.04	77.84	45.68	74.61
Norway (37)	232.12	0.3	207.65	167.17	231.18	234.74	0.4	2.45	231.32	207.31	166.87	229.98	233.88	357.71	181.86	297.85
Philippines (22)	85.24	-6.2	76.25	61.39	84.89	164.61	-6.0	0.90	90.90	81.46	65.57	90.37	175.08	106.98	42.48	67.03
Portugal (18)	268.99	0.6	240.63	193.72	319.24	319.24	0.7	1.03	267.48	239.72	192.96	316.90	316.90	299.39	194.13	-
Singapore (41)	206.25	-6.3	184.51	148.54	205.42	160.39	-5.9	1.77	220.22	197.37	158.87	218.95	170.44	246.74	102.45	170.61
South Africa (38)	184.62	-0.7	165.16	132.96	183.87	243.83	-0.4	3.78	185.95	166.66	134.15	184.88	244.88	348.20	151.55	253.19
Spain (30)	388.31	0.4	347.38	279.66	423.34	423.34	0.5	1.92	386.93	346.77	279.13	421.10	421.10	435.19	290.81	292.88
Sweden (44)	522.47	0.0	467.40	376.28	520.36	597.93	-0.1	1.91	522.61	468.37	377.01	519.59	598.20	628.19	379.18	470.51
Switzerland (30)	408.81	0.5	365.71	294.42	407.15	350.39	0.5	1.22	406.82	364.60	293.48	404.47	348.51	441.65	307.73	349.77
Thailand (34)	23.75	-3.0	21.25	17.11	23.66	34.03	-2.9	2.78	24.48	21.94	17.66	24.34	35.09	33.84	8.15	20.80
United Kingdom (207)	376.96	0.5	337.22	271.48	375.43	337.22	0.3	2.92	374.97	336.05	270.50	372.80	336.05	401.84	307.96	337.99
USA (615)	508.98	0.8	455.33	366.56	506.91	508.98	0.8	1.28	505.14	452.71	364.40	502.21	505.14	525.31	390.12	390.71
Americas (792)	451.41	0.7	403.82	325.10	449.58	383.30	0.8	1.31	448.08	401.58	323.24	445.49	380.43	466.36	347.59	353.81
Europe (733)	356.19	0.2	318.64	256.53	354.75	324.22	0.2	2.09	355.55	318.65	256.49	353.50	323.52	386.24	282.63	295.06
Eurobloc (345)	103.40	-0.1	92.50	74.47	98.42	98.42	0.1	1.76	103.46	92.72	74.63	98.30	98.30	113.92	81.53	-
Nordic (144)	508.58	0.1	454.97	366.28	506.52	503.19	0.2	1.78	507.93	455.22	366.42	505.00	502.19	555.97	380.04	416.17
Pacific Basin (729)	107.52	-0.3	96.18	77.43	107.08	80.57	-0.4	1.55	107.84	96.65	77.80	107.22	80.86	119.48	82.86	110.37
Euro-Pacific (1462)	210.88	0.0	188.65	151.87	210.02	172.08	0.0	1.93	210.79	188.92	152.06	209.57	172.01	221.79	166.00	187.41
North America (731)	488.63	0.8	437.12	351.91	486.64	489.61	0.8	1.30	484.91	434.58	349.81	482.10	485.93	504.30	374.92	378.65
Europe Ex. UK (526)	333.54	0.0	298.38	240.21	332.18	308.02	0.1	1.68	333.51	298.90	240.59	331.58	307.55	366.32	260.93	265.32
Europe Ex. Eurobloc (388)	96.87	0.4	86.66	69.76	96.48	95.62	0.3	2.44	96.45	86.44	69.58	95.90	95.31	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (181)	98.63	0.2	88.23	71.03	98.23	93.76	0.3	1.44	98.41	88.19	70.99	97.84	93.52	109.21	75.16	-
Pacific Ex. Japan (284)	177.74	-2.3	159.00	128.00	177.01	181.73	-2.1	3.61	181.95	163.06	131.26	180.89	185.56	216.04	128.26	176.21
World Ex. Eurobloc (1947)	104.89	0.5	105.44	89.82	104.46	103.15	0.5	1.56	104.34	105.09	89.50	103.74	102.64	108.06	83.09	-
World Ex. US (1677)	209.84	0.1	187.72	151.13	208.99	178.94	0.1	1.95	209.74	187.97	151.30	208.52	178.82	221.91	168.95	190.11
World Ex. UK (2085)	299.45	0.4	267.89	215.67	298.24	266.48	0.4	1.44	298.21	267.27	215.13	296.49	265.30	311.48	236.11	246.78
World Ex. Japan (1847)	408.53	0.5	365.47	294.22	406.88	397.83	0.5	1.66	406.70	364.49	293.39	404.35	395.94	427.99	320.58	330.11
The World Index (2292)	306.15	0.4	273.88	220.49	304.91	273.06	0.4	1.59	304.85	273.21	219.92	303.09	271.89	318.51	242.38	254.50

Emerging markets:

IFC investable indices

Dollar terms

Jan 25 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	702.19	+0.1	-12.0
Brazil	193.97	-5.1	-29.5
Chile	432.74	+4.2	-4.1
Colombia[1]	381.18	-0.6	-13.2
Mexico	442.69	+0.3	-8.1
Peru[2]	129.37	+0.7	-3.7
Venezuela[3]	367.17	-0.1	-19.0
East Asia			
China[4]	22.24	-1.0	-15.0
India[7]	69.39	+0.2	+8.1
Indonesia[8]	19.39	-10.1	-19.9
Korea[6]	50.49	-1.7	-4.8
Malaysia	96.20	-1.4	+8.7
Pakistan[9]	89.81	-0.4	-8.1
Philippines	116.54	-6.0	-5.3
Sri Lanka[10]	79.09	-0.1	-4.0
Taiwan, China[6]	111.76	-2.9	-3.5
Thailand	63.56	-3.8	+0.6
Europe			
Czech Rep	50.32	+1.2	-0.8
Greece	663.26	-2.5	+7.1
Hungary[11]	294.45	+3.9	+4.9
Poland[12]	528.34	-3.3	+0.5
Portugal	307.09	+0.6	+5.2
Russia	22.55		-8.8
Slovakia	43.46	-0.3	-0.3
Turkey[14]	131.77	-3.1	-9.9
Mideast/Africa			
Egypt	74.96	+4.5	+16.3
Israel	102.51	-2.2	+0.3
Jordan	234.22	+5.3	+8.2
Morocco	175.35	-0.2	+4.6
S Africa[15]	125.86	-0.5	+0.5
Zimbabwe[16]	102.64	+1.0	-2.6
Regions			
Composite	176.27	-1.3	-5.8
Latin America	356.81	-0.8	-15.0
Asia	101.74	-2.7	-4.9
EMEA	116.84	-0.7	+2.2
Europe	153.85	-1.0	+2.7
Eastn Europe	58.88	+0.7	+1.3
ME & Africa	54.52	-0.4	+1.7
Comp + Malay	180.72	-1.3	-4.5
Asia + Malay	105.76	-2.4	-2.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 7 1991; (10)Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993

Latest indices were unavailable for this edition.

4 pm close January 26

NEW YORK STOCK EXCHANGE PRICES

1998/99 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial. d-new yearly low. P/E price-earnings ratio. vol volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 25	Jan 22	Jan 21	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9203.32	9120.67	9264.08	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.42	106.49	106.40	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3112.97	3063.80	3094.81	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	308.61	308.73	306.98	320.51 (8/10/98)	262.58 (9/1/98)	320.51 (8/10/98)	10.53 (8/7/32)

DJ Ind. Day's high 9273.08 (9289.31) Low 9094.26 (9098.68) (Theoretical)
Day's high 9203.83 (9254.58) Low 9093.28 (9088.45) (Actual)

Standard and Poors	Jan 25	Jan 22	Jan 21	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1233.98	1225.19	1235.16	1275.09 (8/1/99)	927.69 (9/1/98)	1275.09 (8/1/99)	4.40 (1/6/32)
Industrials♥	1488.60	1479.02	1489.81	1538.43 (8/1/99)	1077.40 (9/1/98)	1530.51 (8/1/99)	3.52 (30/6/32)
Financial♥	129.96	128.37	130.27	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	588.06	583.75	588.03	611.06 (8/1/99)	477.20 (8/10/98)	611.06 (8/1/99)	4.64 (25/4/42)
Amex Comp	708.01	704.69	704.99	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2369.31	2338.88	2344.72	2415.48 (20/1/99)	1419.12 (8/10/98)	2415.48 (20/1/99)	54.87 (3/10/74)
Russell 2000	422.11	422.44	424.05	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Jan 22	Jan 15	Jan 8	Year ago
Dow Jones Ind. Div. Yield	1.67	1.64	1.58	1.79
	Jan 20	Jan 13	Jan 6	Year ago
S & P Ind. Div. yield	1.12	1.14	1.11	1.47
S & P Ind. P/E ratio	36.80	37.95	38.11	26.31

US DATA

MARKET ACTIVITY

Volume (million)	Jan 25	Jan 22	Jan 21
NYSE	728.020	785.910	870.405
Amex	22.633	24.106	25.281
NASDAQ	977.945	1020.56	1087.95

NYSE	Jan 25	Jan 22	Jan 21
Issues Traded	3,531	3,540	3,553
Rises	1,442	1,226	1,130
Falls	1,517	1,818	1,938
Unchanged	572	496	485
New Highs	39	34	52
New Lows	58	63	56

NYSE TRADING ACTIVITY

Volume : 728,020,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
IBM	11,229,100	180⅞	+1¾
AT&T	10,702,500	88¾	+1½
Compaq	9,701,700	46⅝	+½
Citgrp	8,651,300	53¾	+1⅞
AmOnLne	8,363,900	145	+4⅜
BellSth	7,717,000	42½	–5⅜
LucentTch	7,581,300	102	–1⅞
Lilly	6,886,800	88½	+6½
Merck	6,698,500	137	–8
Cendnt	6,041,800	20½	+1½

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
JonMan	18	+2¼	+12.9
Diag Prods	34	+3½	+11.5
SteadPacM	14¾	+1⅜	+10.8
LSI Lg	23¾	+2¼	+10.3
Downs			
Robert Hal	38¾	–8¾	–18.4
Barry(RG)	10¼	–1⅜	–12.9
BellSth	42½	–5⅜	–11.8
DVI	13¾	–1¾	–11.4

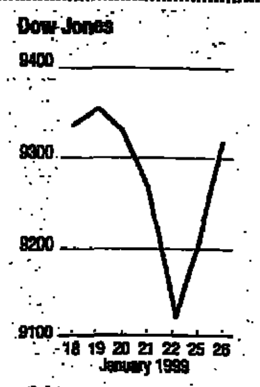
NASDAQ TRADING ACTIVITY

Volume :977,948,000

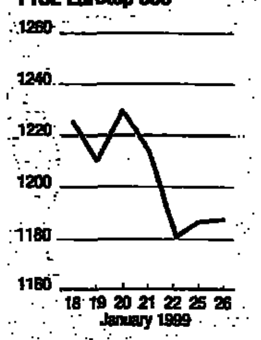
ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Micsft	25,420,000	161⅞	+5⅞
Intel	14,549,300	130⅝	+1¾
Amz.com	13,500,800	112¾	–10⅝
Ciena Cp	11,992,800	20¼	–2¾
CiscoSys	11,458,700	109¼	+¾
DellCmp	11,264,200	84⅞	+1⅞
AgriBiotec	9,912,100	8⅞	–3¾
MCIWcm	9,768,100	77⅛	+2⅞
AscendCom	8,408,600	78⅞	–½
BMC Softw	6,680,300	45⅜	+1¾

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Childrn	34½	+5⅞	+20.5
NTL Inc	79¾	+12⅛	+17.8
CmbTch	28½	+3⅝	+14.3
ADCTel	40⅞	+4⅞	+13.8
Downs			
Imax Cp	25⅞	–6⅝	–20.3
InfMngR	24⅛	–4⅜	–15.1
RoslynBc	18¾	–2⅝	–12.4
UtdVdS	28¼	–3¾	–11.7

Dow Jones



FTSE Eurotop 300



JAPAN

	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14382.01	14208.81	14154.40	17264.3	12880	38915.9	85.25

Day's high: 14501.44. Day's low: 14251.29.

TOKYO TRADING ACTIVITY

Volume : 498,500,000

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
ShokJt	14,777,000	100	+25
Haseko	14,314,000	40	+4
Yuasa	9,149,000	326	+11
SumMt	8,532,000	130	+7
NissMr	8,371,000	448	–3
NpStl	8,216,000	208	+2
Hitachi	7,807,000	770	–5
Tshiba	7,639,000	750	+2
SumBnk	6,805,000	1413	+17
BTokM	6,759,000	1370	+18

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
ShokJt	100	+25	+33.3
Haseko	40	+4	+11.1
ToyoKn	131	+13	+11.0
AokiCp	52	+5	+10.6
FujiCp	65	+6	+10.2
AnglTs	246	+21	+9.3
Sanrio	1593	+123	+8.4
Downs			
Nagase	410	–24	–5.5

FRANCE

	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4071.28	4050.80	4019.33	4388.48	2862.54	4388.48	984.61

Day's high: 4082.65. Day's low: 4017.54.

PARIS TRADING ACTIVITY

Volume : 495,219,800

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
FrTele	3,214,471	81.5	+0.75
RhonPA	1,712,353	41.5	–1.4
Usinor	1,292,220	10.22	+0.2
TotalB	953,908	87.45	–2.55
Axa	919,227	122.7	–1.3
MchlnB	802,329	32.85	+2.05
Alctel	778,053	101.5	+3.6
Renault	721,764	41.6	–0.25
EIfAqu	638,407	98	–4
STMicro	621,500	81.4	–0.1

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
StGobn	120.5	+8.9	+8.0
Clemnt	48.69	+3.36	+7.4
MchlnB	32.85	+2.05	+6.7
FrmBel	697	+42	+6.4
Downs			
Pathe	240	–48	–16.7
G'plays	48.78	–3.42	–6.6
Prtngz	68	–4	–5.6
Clarin	62.5	–3.25	–4.9

GERMANY

	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4986.80	4982.45	5019.28	6171.43	3896.08	6171.43	931.18

Day's high: 5071.23. Day's low: 4948.51

FRANKFURT TRADING ACTIVITY

Volume : (n)

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
Dt Bk	532,052	45.9	–0.75
Bayer	459,404	32.15	
Dt Tel	398,282	35.9	+0.1
DmlrCh	389,901	88.7	+1.2
BASF	362,517	31.85	–0.42
Commzbk	325,605	26.6	–0.8
Siemns	261,275	58.8	–0.55
Lufthn	235,193	18.8	–0.35
DrsdBk	225,408	33.5	–0.5
VW	186,107	68	+1.9

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
SAP Pf	351.5	+18.5	+5.6
SGLCar	52.9	+2.45	+4.9
GEA	21.5	+0.99	+4.8
HarnAR	98	+4.5	+4.8
Downs			
MchRKD	302	–15	–4.7
BraunBn	61	–3	–4.7
AdMcRg	102	–5	–4.7
Akzea	51.5	–2.5	–4.6

UK

	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5885.7	5880.9	5861.2	6179	4548.7	6179	986.9

Day's high: 5927.8. Day's low: 5822.9.

LONDON TRADING ACTIVITY

Volume : 1,068,800,000

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
LucasVarity	49,053,140	286	+42
Shell	23,781,930	318½	–6½
Mks&Spencer	21,279,880	349	+11½
Vodafone	20,491,220	1158½	+12
Tesco	19,742,990	177¼	+2
BP Amoco	18,620,480	857	–15
TeleWest	17,798,800	267½	+17
Cable & Wire	12,719,580	805½	+25½
GEC	11,462,770	558½	+1½
Coats Viyella	11,119,590	28½	+¾

BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
Ion Business	60	+13½	+29
Greenlin	121	+21	+21
Lucas Varity	286	+42	+17.2
On-Line	148½	+21	+16.5
Lady In Leis	110	+15	+15.8
Downs			
Eurotov Engy	20	–6½	–24.5
Laser-Scan	11½	–3	–20.7
Walker Grnbk	47	–10½	–18.3

INDEX FUTURES

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Mar	1243.20	1244.00	+0.50	1249.10	1237.10	81,246	389,974
Jun	1256.50	1256.00	+0.80	1256.50	1256.00	78	7,419
Nikkei 225							
Mar	14300.0	14350.0	+200.0	14520.0	14290.0	36,898	192,806
Jun	14140.0	14350.0	+210.0	14410.0	14140.0	89	30,243
CAC-40 (200 x index)							
Jan	4069.0	4066.0	+36.0	4086.0	4015.0	90,828	82,055
Feb	4080.0	4075.5	+35.5	4098.0	4030.0	37,358	27,001
DAX							
Mar	5061.0	5025.0	+33.0	5082.0	4955.0	48,087	168,323
Jun	5096.0	5052.0	+23.5	5102.0	5025.5	1,930	26,412
OMX							
Jan	–	–	–	–	–	–	–
Feb	697.00	695.00	–2.50	705.00	687.00	25,033	158,410
EUREX							
Mar	7169.0	7088.0	–12.0	7205.0	7050.0	31,886	127,368
Jun	7034.0	7032.0	+14.0	7049.0	7016.0	135	3,819

Open interest figures for previous day

WORLD MARKETS AT A GLANCE

Country	Index		Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General		15359.65	15332.89	15336.08	23495.50 23/3/98	12303.10 10/9/98	4.69	10.9
Australia	All Ordinaries	(c)	2827.9	2848.4		2897.30 7/1/99	2458.20 1/9/98	3.07	22.3
	All Mining	(c)	569.0	576.0		713.10 23/4/98	499.80 31/8/98		
India	BSE Sens.	(c)	3309.15	3297.88		4280.96 21/4/98	2764.16 20/10/98		
	Crisil 500	(c)	664.04	666.89		815.92 21/4/98	557.98 20/10/98	na	na
Indonesia	Jakarta Comp.		398.15	382.47	(c)	554.10 2/2/98	256.83 21/9/98	2.49	19.7
Portugal	PSI 30		11759.49	11702.55	11629.70	14293.00 22/4/98	8114.51 2/10/98		
Russia	RTS		55.54	55.60	55.68	411.81 5/1/98	38.63 5/10/98	na	na
Singapore	SES All-S'pore		383.15	379.45	398.73	437.98 19/3/98	253.29 4/9/98	2.19	21.2

Indonesia: Rebounded with the rupiah. Indocement soared 20 per cent following news foreign investors were in talks to buy a stake.

Russia: Closed little changed in minimal trading volumes.

THE NASDAQ-AMEX MARKET GROUP

4 pm close January 26

AMEX

4 pm close January 26

EASDAQ

STOCK MARKETS

Brazil worries curb enthusiasm as Real slips

WORLD OVERVIEW

Continuing concern about the financial problems of Brazil restrained investors' enthusiasm for global equities yesterday, *writes Philip Coggan.*

Traders had some good news at the start of the day, as the Chinese premier ruled out a devaluation of the renminbi. But the foreign exchange markets still managed to upset sentiment later in the day as the Brazilian Real slipped to R$1.97 to the dollar and credit agency Fitch IBCA cut the ratings on Brazilian debt.

While Asia pushed ahead on the China report, the European markets were flat, although the Dax in Frankfurt ticked above the 5,000 level.

Although market reaction to the Brazilian devaluation has been far more subdued than the sell-off that followed the Russian or Asian crises, investors remain concerned that Brazil's problems could spread to the rest of Latin America. That in turn could create problems for the US, for which the region is an important export market.

Wall Street managed to hold off the bad news from Brazil, with the help of some in-line results from Boeing, Coca-Cola and McDonalds.

The US results season has started well. According to IBES International, the information group, 41 per cent of S&P 500 companies have so far reported fourth-quarter 1998 earnings. Those earnings have come in 3.9 per cent above analysts' forecasts, thanks to companies such as Microsoft, Intel and National Semiconductor.

However, IBES predicts: "The positive surprise percentages will most likely decrease over the next few weeks as more of the smaller commodity-related forms report their earnings, particularly in the oil, steel, chemical and natural gas industries.

"We expect that the S&P 500 index will register its second straight quarterly earnings decline in Q4 1998 due to a continued pattern of negative earnings growth from the commodity-related industries."

Earnings are also likely to come under pressure in Europe. "We believe there is substantial downside risk to corporate profit forecasts, says Gary Dugan, European strategist at J.P. Morgan. "Today, the consensus bottom-up expectation for earnings growth in 1999 is 11 per cent. From a top-down perspective, however, we find it difficult to argue for much more than 0-8 per cent."

Given this background, Mr Dugan adds: "On our models, we have come out with a target for the FT/S&P Europe 300 ex-UK index of 1,375, which equates to a modest return of 7 per cent over the next 12 months."

Earnings fear casts shadow over Wall St

AMERICAS

The technology sector again led Wall Street higher despite continuing signs of broader weakness in the US stock market, *writes Richard Waters in New York.*

Fallers outnumbered risers in the morning session, reflecting a continuation of the unease about corporate earnings prospects that has settled over the market in recent days.

But technology stocks performed well again, lifting the Nasdaq composite 1.5 per cent.

By early afternoon, the Nasdaq was trading at 2,405.71, a rise of 36.4. The Dow Jones Industrial Average was up 15.7 or 0.2 per cent at 9,219.02 while the Standard & Poor's 500 index stood at 1,237.89, a rise of 3.91.

International Business Machines and Hewlett-Packard were among the biggest gainers in the Dow. The former rose $3¾ to $184⅞ on expected news of a share split, while the latter gained $1⅛ to reach $72⅞.

Microsoft, which had announced a share split earlier in the week, climbed another $7⅞ or 4.4 per cent to $169 1/16, another record. Intel and Dell Computer each gained nearly 3 per cent, with Intel up $3 13/16 at $134 7/16 and Dell up $2¼ at $87¾.

There was a mixed reception for the latest batch of earnings reports from some of the biggest US companies. Coca-Cola fell, despite meeting earnings expectations, as the company's profits continued to slide. The shares dropped $2⅜ or 3.7 per cent to $60⅜.

Meanwhile McDonald's, which reported a 10 per cent rise in net income, gained $3⅛ or 4 per cent to $78⅞.

Other companies in the Dow to report earnings included Boeing, which fell $¾ to $35¾, and Merck, which recovered some of its losses of the previous day, gaining $1⅜ to reach $138⅜.

Some of the biggest internet stocks continued to recover from the sharp falls they suffered last week. Amazon.com, the internet retailer, rose $4⅞ to $$152¾. The company was due to report earnings later in the day.

Yahoo! rebounded $26 13/16 or 8.6 per cent to $338 13/16, although it was still more than $100 below the record set earlier in the year.

TORONTO pushed higher in early trading helped by a round of better-than-expected earnings statements that lifted the 300 composite index 13.72 to 6,632.20 at noon.

Northern Telecom was actively traded after turning in final-quarter results ahead of market forecasts. The shares added C$2.45 to C$86.55 while BCE, which owns 41 per cent of Nortel, improved 65 cents to C$63.40.

Canadian Pacific reported lower profits but the result was seen as more resilient than anticipated. The shares added 90 cents at C$30.85. The transport sector was also enlivened by Laidlaw, which added 50 cents at C$13.45.

In banks, Toronto-Dominion improved 70 cents to C$76.15 after it confirmed plans to spin off its discount brokerage operations. Royal Bank of Canada gained 85 cents to C$76.15.

Printemps springs higher

EUROPE

European equities ended little changed after another low-volume session. **PARIS** mirrored the broad trend, closing at 4,071.28, up 20.48 and 21 points short of the day's best level.

Pinault-Printemps, a dull market in recent weeks on talk of dwindling sales growth, shot ahead after 1998 sales figures showing solid gains in like-for-like turnover. The shares gained €8 at €156.

Michelin also showed an unexpected turn of speed, advancing €2.05 to €32.85 after a press report suggested the tyre leader was to forge an important alliance with a Japanese tyre giant.

Saint-Gobain rose €8.90 or 8 per cent to €120.50 ahead of tomorrow's results statement. It was said to have gained from switching out of Pilkington because of the UK glassmaker's Latin America exposure.

The FTSE Eurotop 300 index rose 1.05 or 0.09 per cent to 1,187.54. See Euro Prices page.

Cap Gemini added €1.40 at €158.40 after an upgrade to "buy" at Rabobank. An upbeat trading statement from STMicroelectronics gave little support and it dipped 10 cents at €81.40.

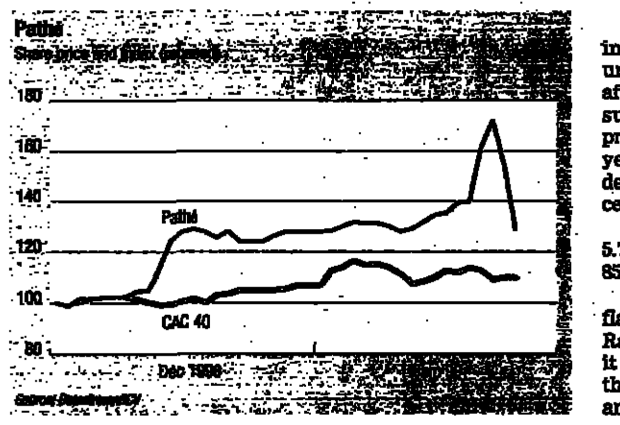
LVMH, buoyed lately by acquisition news, notably a large stake in Italian fashion house Gucci, gained €6.50 at €207 following a better-than-expected sales statement.

Banks and oils stood out as weak features. BNP lost 50 cents at €77.50 and Société Générale came off €2.50 at €147. In oils, Elf Aquitaine shed €4 at €96.

Among lesser caps, Pathé continued to crumble after Monday's news that Canal Plus and Vivendi had become substantial share holders, effectively removing the potential for a bid battle over the TV and cinema group. Pathé shed €48 to €240 for a two-day decline of more than 26 per cent.

FRANKFURT climbed back above the 5,000 level on the Xetra Dax index, adding 12.60 at 5,001.19.

Motors were mixed with the sector caught between a forecast of low German car registrations this year from the FAW research institute and an upgrade for Volkswagen at Morgan Stanley.



BMW shed €11 at €601. VW, raised to "outperform" from "neutral" by the US broker, added €1.54 at €68.35 and DaimlerChrysler gained 65 cents at €88.85.

Software leader SAP was a firm feature, gaining €19 at €353.50. MAN ended at the other end of the performance charts, losing €5.75 to €224.25.

AMSTERDAM ended modestly higher, with most of the day's honours going to DSM and the publishing sector. The AEX index added 1.28 at 526.64.

DSM rose €3.10 to €75.50, while media stocks saw strong gains of more than 7 per cent for both VNU and Elsevier, which jumped €2.60 to €38 and 90 cents to €13.35 respectively.

Employment agency Randstad surged €2.30 to €50.30 after a note from ING upgraded the shares to "buy".

MILAN held up better than most west European markets, ending almost 1 per cent higher amid continued enthusiasm for stocks with internet interests.

The Mibtel index rose 189 to 23,146 on a day of low trading volume. Internet beneficiaries included Class Editori, the media company, and Cofide, the holding group, which were both suspended limit up for a second day.

Class Editori finished €1.891 or 29.7 per cent higher at €8.266, up €3.128 from the close last Friday. Cofide gained 15.85 cents or 29.3 per cent to reach 70.03 cents.

Mediaset, the commercial television group which rose 4.4 per cent on Monday, was also suspended limit up. It finished 77.4 cents or 9.4 per cent higher at €9.04.

Among banks, investor interest focused on BCI and Unicredito after a Deutsche Bank board member said the German bank might consider linking up with its Italian counterparts. BCI climbed 5.2 cents or 1.0 per cent to €5.362 while Unicredito rose 6.7 cents or 1.4 per cent to €4.743.

MADRID ended off lows, reflecting a slight recovery in the value of the Brazilian Real. Some Spanish stocks with large Latin American exposure have been hit hard by worries about the Brazilian economy.

Telefónica, Spain's biggest investor in Latin America, underperformed the market after its Telefonica del Peru subsidiary revealed that profits fell 42 per cent last year. The parent company declined 66 cents or 1.7 per cent to €39.15.

The general index closed 5.76 or 0.7 per cent lower at 850.99.

HELSINKI closed almost flat despite heavy selling of Raisio, the food group, after it released bad news about the US launch of Benecol, its anti-cholesterol food agent.

The Hex index finished at 5,973.34, down 5.03, after receiving support from market leader Nokia, 42 cents higher at €122.50.

Raisio's news of an agreement between its US partner and the US Food and Drug Administration initially sent the shares soaring 15 per cent. On closer examination, however, analysts concluded that the deal was disappointing. The stock plunged, ending €1.90 lower at €7.60.

ATHENS rose to a record after unprecedented demand at the latest bond auction sparked hopes for an interest rate cut. Applications for the 10-year bond auction totalled Dr2,300bn.

At the close, the general index was up 114.87 or 3.9 per cent to 3,032.25.

Written and edited by Jeffrey Brown, Michael Peel, Paul Gregan and Peter Hall

São Paulo looks cheap for bargain hunters

SAO PAULO surged as investors took advantage of the depreciation in the Real to buy shares in companies that looked cheap in dollar terms.

The Bovespa index had reached 7,782 by mid-afternoon, a rise of 592 or 8.2 per cent.

The bourse was closed for a holiday on Monday, when the Real edged lower against the dollar, slipping from R$1.69 to R$1.78.

The currency declined further yesterday, falling as low as R$1.97 to the dollar. It had recovered by lunchtime to R$1.83.

Sentiment was also hit by credit agency Fitch IBCA's decision to cut the ratings on Brazilian debt.

Indices across Latin America rose with São Paulo.

By late afternoon, the IBC index in **CARACAS** was 82.47 or 2.1 per cent higher at 4,002.94.

Jo'burg falls in late sell-off

SOUTH AFRICA

Shares in Johannesburg moved lower on late profit-taking. The all share index closed up 11.3 at 5,592.2, down from a best of 5,628.3.

Traders said the late sell-off was sparked by renewed weakness for the Real, which lurched precipitously against the dollar in early trading in Brazil.

Industrial shares gained 23.6 to 6,470.9 but financials lost ground on local interest rate and currency concerns, dipping 17.9 to 8,480.7.

Pace of reform boosts Tokyo

ASIA PACIFIC

Shares in **TOKYO** pushed higher after traders became increasingly optimistic about the pace of banking reform in Japan, *writes Gillian Tett.*

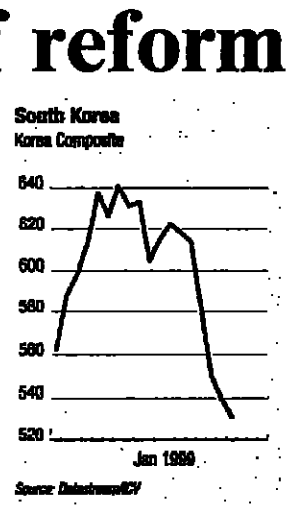
The market was also boosted by overnight gains in New York and hopes that the government might soon establish a new institution to help Japanese institutions unwind their vast cross-shareholdings.

In particular, the ruling Liberal Democratic party has started to discuss using this institution to avert sudden falls in equities.

The LDP has not yet produced firm proposals but the move has prompted some investors to hope the long-running structural reforms needed in Japan may finally be emerging.

The Nikkei 225 Average rose 1.2 per cent to 14,382. The day's trading range was 14,501.44 to 14,251.29. The Topix index of all first-section shares rose to 1,109.88, up 1 per cent, and the Nikkei 300 rose to 221.11, a gain of 1.2 per cent.

Volume on the first section was almost 500m shares,



comparable to the levels seen last Friday and markedly better than the 390m recorded on Thursday.

Banks were generally firmer, even though Moody's, the US credit rating agency, downgraded Bank of Tokyo Mitsubishi, Sanwa, Sumitomo and Toyo Trust. BTM gained Y16 to Y1,370, Sumitomo was up Y17 to Y1,413, Toyo Trust increased Y2 to Y333, while Sanwa Bank lost Y7 to close at Y1,075.

JAKARTA rebounded, recovering 80 per cent of the previous session's steep decline. At 398.15, the composite index was up 15.67 or 54.1 per cent. Brokers said blue chips were the main target for investors.

Indofood jumped Rp450 to Rp4,500 and tobacco group Sampoerna rose Rp4,875 to Rp4,950. Telkom advanced Rp75 to Rp3,350.

But the strongest performance of the day came from cement group Indocement, which surged 20.2 per cent or Rp525 to Rp3,125 on the news that three foreign cement groups were in talks to buy a strategic stake in the company.

SEOUL, hit by futures-led selling at the end of the session, unwound early gains to leave the composite index off 8.53 at 531.23, a four-day decline of 14.5 per cent.

A Standard & Poor's upgrade for South Korea's sovereign debt sent shares higher at the opening, and the benchmark reached 562.46 before falling back under the impact of futures-driven arbitrage.

Korea Telecom lost Won1,000 at Won36,000. Korea Electric was a firm feature, adding Won1,400 at Won30,900.

MANILA rallied modestly, helped by overnight gains on Wall Street and the better tone across Asia. The composite index, off 5.4 per cent on Monday, improved 30.82 or 1.6 per cent to 1,982.26, with financials driving the recovery.

Ayala Land gained 25 centavos to 12 pesos and Metrobank rose 12.50 pesos to 295 pesos. Pilipino Telephone, a weak market lately on news of debt problems, edged higher, finishing 30 centavos ahead at 2.34 pesos.

BANGKOK also retraced some of the 3.5 per cent shed by the SET index on Monday. Buoyed by an active session for the banking sector, which rose 3.9 per cent, the benchmark gained 3.41 at 366.77.

Turnover, at Bt2.10bn, was hesitant ahead of today's no confidence vote in parliament. Bangkok Bank gained Bt0.75 at Bt50.50.

TAIWAN rose 82.43 to 6,115.64 on the weighted index, thanks largely to a 2.8 per cent advance for the electronics sector.

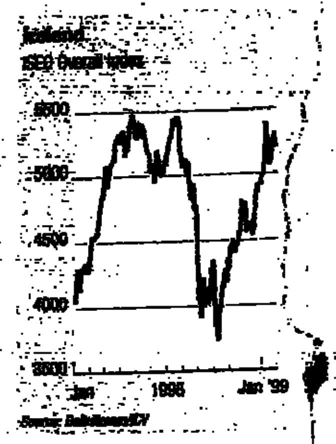
Taiwan Semiconductor gained T$3.50 to T$84 while United Microelectronics surged T$2.90 or 6.5 per cent to close at T$46.20, its best of the session.

MARKET FOCUS

Dublin learns to talk in euros

Ireland has again confirmed its reputation as the European Union's most enthusiastic member, with its listed companies taking to the euro with a readiness few on the continent can match.

While the Germans, and to a lesser extent the French, stick to the so-called legacy currencies, the early signs are that Irish corporates have already jettisoned the punt, and are now wholeheartedly embracing the euro in the presentation of their annual numbers.



"What we hear is that most of the large companies will report in euros," said Tom Healy, chief executive of the Irish stock exchange.

A survey of Dublin-listed companies by Davy stockbrokers in November found 14 per cent planned to present their 1998 finals in euros, and 84 per cent could use euros for their 1999 interims.

The issue is important for the smaller euro-zone markets such as Dublin. Domestic fund managers are set to rebalance their portfolios as they no longer have to match their Irish liabilities with exclusively Irish stocks, and may now buy in the wider market without exchange considerations.

"Anything a company can do to make it easier for a fund manager in Frankfurt to buy its stock, it should do it. It's like reporting early," said Chris O'Connell, director at IBI, Bank of Ireland's corporate finance arm.

CRH, the building materials group, said it adopted the euro for all its management accounts from January, but most companies are expected to retain the punt for internal purposes.

Joe Gill, head of equity trading at Riada brokers in Dublin, said the real push has come from investors. "All our commissions are quoted in euros, all our budgets. Our clients don't want to hear us talk in Irish," says Mr Gill.

From January 4, when the 11 stock markets of the new euro-zone opened for trading, prices have been quoted in euros. The only figure the stock exchange stipulates must be in euros is the dividend, largely for investor convenience given the price is already in euros.

By reporting profits and earnings per share in euros, companies make it easier for investors to calculate ratings. Foreign borrowings may also make more sense.

For a US investor, it allows comparisons with other euro-zone markets. On the downside, the move makes it more difficult to make historic comparisons.

The decision of Irish companies is dictated by the need to lure European-based fund managers to buy Irish stock. As part of Europe's fastest-growing economy, Irish companies should be able to entice buyers from a much larger investor base.

This year the ISEQ overall index has climbed to within 4 per cent of its April 1998 high.

Oliver O'Shea, banks analyst at Goodbody stockbrokers, said there had already been a re-rating of some stocks. Irish banks are now on a par with the faster-growing peripheral euro-zone economies such as Portugal and Spain rather than their traditional UK peers.

John Murray Brown